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Public Investment Memorandum

**Oak HC/FT Partners IV, L.P.**

Private Equity Fund Commitment

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**G. Anthony Meadows, CAIA, CPA.CITP**  
Senior Investment Professional, Private Equity

**Darren C. Foreman, CAIA**  
Director, Private Equity

December 18, 2020



**Executive Summary:**

PSERS' Investment Office Professionals ("IOP"), together with Hamilton Lane Advisors, L.L.C. ("Hamilton Lane"), recommend to the Board a commitment of up to a combined \$100 million plus reasonable normal investment expenses, in Oak HC/FT Partners IV, L.P. ("Fund IV" or the "Fund"), and/or related investment vehicles.

Oak HC/FT Management Company, LLC ("Oak HC/FT" or the "Firm") is raising the Fund to invest in Healthcare Information & Services ("Healthcare" or "HC") and Financial Services Technology ("FinTech" or "FT") in the growth and early-stages of the business life. This strategy is the same investment strategy and focus that Oak HC/FT has deployed since the Firm's inception in 2014. The Fund is targeting combined commitments of \$1.1 billion.

Fund Name	Oak HC/FT Partners IV, L.P.
Fund General Partner	Oak HC/FT Associates IV, L.P.
Management Company	Oak HC/FT Management Company, LLC ("Oak HC/FT" or the "Firm")
Target Fund Size / Hard Cap	\$1.1 billion / To Be Determined
Recommended Commitment Amount	No less than \$75 M and up to \$100 M
Existing Relationship	No
Source of Funds	Private Equity Distributions
Asset Class / Sub Asset Class	Private Equity / Growth
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments Darren C. Foreman, Director G. Anthony Meadows, Senior Investment Professional
External Consultant Oversight	Hamilton Lane Advisors, L.L.C.

**Firm Overview:**

Ann H. Lamont, Andrew W. Adams, and Patricia F. Kemp, (collectively, the "Managing Partners"), formed Oak HC/FT in 2014. Prior to forming Oak HC/FT, the Managing Partners were responsible for certain investments in Healthcare and FinTech made by investment vehicles managed by Oak Investment Partner (OIP).

Fund I closed in June 2014 with total capital commitments of \$500 million. As of September 30, 2020, approximately \$457 million has been invested by Fund I across 20 portfolio companies. As of September 30, 2020, Fund I has achieved five liquidity events resulting in a 48.5% gross Investment Rate of Return (IRR) and 2.7x gross Multiple of Capital (MoC) on those realized investments, and has 15 remaining active investments with a cost basis of \$345.0 million and a fair market value of \$962.9 million. As of September 30, 2020, Fund I has distributed a total of \$227.5 million, or 47.6% of contributed capital.

Fund II closed in March 2017 with total capital commitments of \$600 million and has had strong performance to date as well. As of September 30, 2020, approximately \$435 million has been invested by Fund II across 21 portfolio companies. Fund II's active portfolio investments as of September 30, 2020 had a cost basis of \$435.1 million and a fair market value of \$822.9 million.

Fund III closed in July 2019 with total capital commitments of \$800 million. As of September 30, 2020, approximately \$368 million has been invested by Fund III across 14 portfolio companies. Fund III's active portfolio investments as of September 30, 2020 had a cost basis of \$367.6 million and a fair market value of \$445.6 million.

### **Market Opportunity:**

The healthcare industry is one of the largest, fastest growing market sectors in the United States. According to Health Affairs<sup>1</sup>, at \$3.8 trillion in 2019, the healthcare industry comprised 17.8% of the Gross Domestic Product (GDP) and is expected to grow to 19.7% of GDP by 2028. Growth for national healthcare spending is expected to outpace GDP growth projections at 5.4% annually for healthcare versus 4.3% for GDP. According to a Silicon Valley Bank Report<sup>2</sup>, for the first three quarters of 2020, demand for solutions to improve quality of care, reduce healthcare costs, and enhance access to medical care drove \$12.1 billion of capital deployed, globally (\$9.9 billion in the U.S.) into digital health investments alone, and the sector is on track to have a record-setting funding year. This robust market sector activity supports Oak HC/FT's longstanding investment theses and capital deployment strategy, both of which are underpinned by their extensive experience and deep portfolio company industry relationships.

According to the U.S. Bureau of Economic Analysis, financial services comprised over 15% of national GDP in 2019, one of the most dominant and compelling industries in the United States. The financial services industry helps business and consumers transact, borrow, invest, and manage money; all activities crucial for driving economic activity. Technology is rapidly changing how financial services are delivered. Per an August 2020 Gartner Press Release<sup>3</sup>, financial services companies worldwide spent approximately \$500 billion in 2019 on information technology and spending is expected to accelerate as digital initiatives are becoming prioritized. Financial service solutions are an integral part of the backbone and transactional infrastructure for many other industries including retail, healthcare, real estate, education, construction, transportation, and legal and business services. Opportunities for innovation and technology adoption by financial services providers and adjacent industries exist as all industries continue to evolve into the digital age.

### **Portfolio Fit:**

A commitment to Oak HC/FT will be allocated to the Venture Growth Equity sleeve in PSERS' Private Equity portfolio. The table below summarizes PSERS' projected Private Equity exposure, as of June 30, 2020, inclusive of a recommended maximum amount of \$100 million commitment to Oak HC/FT IV:

Investment Type	Market Value	Unfunded <sup>1</sup>	Total Exposure	%	Pending Current Commitments		
					January 2021	Total Exposure	%
Buyout	\$ 6,538	\$ 5,006	\$ 11,544	78.4%	\$ 150	\$11,694	78.1%
Growth Equity	582	796	1,378	9.4%	100	1,478	9.9%
Venture Capital	556	331	887	6.0%	-	887	5.9%
Internal Co-invest	755	163	918	6.2%	-	918	6.1%
<b>Total</b>	<b>\$ 8,431</b>	<b>\$ 6,296</b>	<b>\$ 14,727</b>	<b>100.0%</b>	<b>\$ 250</b>	<b>\$14,977</b>	<b>100.0%</b>

<sup>1</sup>Includes commitments approved through December 2020

### **Investment Strategy:**

Oak HC/FT will focus Fund IV on what the firm's principals categorize as the "fundamentals of growing and building successful companies" that will bring value to investors. These fundamentals include high organic growth rates, strong gross margins, durable unit economics, unique data assets, and sustainable competitive differentiation in the respective marketplaces.

<sup>1</sup> <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2020.00094?journalCode=hlthaff&>

<sup>2</sup> <https://www.svb.com/globalassets/library/managedassets/pdfs/healthtech-report-2020.pdf>

<sup>3</sup> <https://www.gartner.com/en/newsroom/press-releases/2020-08-12-gartner-forecasts-worldwide-banking-and-securities-it>

Oak HC/FT believes the healthcare market is a multi-trillion dollar industry that will continue to grow while still remaining ripe for service and technology improvements that will help clinicians, improve care and provide investors with decades of value-add growth. Oak HC/FT believes the investment opportunities exist “in long neglected and ignored areas where there are excessive inefficiencies and waste, and where tech-enabled solutions, specialized outsourced services, and alternative care delivery models can unlock substantial value.”

Financial services, like Healthcare, continues to be ripe for innovation. The global FinTech market was estimated at \$127.7 billion in 2018, with a projected annual growth rate of approximately 25% until 2022, to \$310.0 billion, according to Oak HC/FT research. Each of the areas Oak HC/FT targets – including banking, payments, lending, insurance, and asset management – use dated, legacy platforms. The Firm’s focus remains on companies that create tech-enabled services or solutions to make the delivery and management of financial services more digital, efficient, valuable, and compliant for customers. This strategy primarily targets Business-to-Business (B2B) companies, which limits Oak HC/FT’s exposure to new and existing financial regulations. The Firm continues to partner with entrepreneurs who have a clear understanding of the global opportunities for achieving greater efficiencies and providing superior solutions in these areas.

Fund IV’s investment strategy in growth equity investments “will target opportunities with robust organic revenue potential, large total available market, and a capital efficient operating model. Oak HC/FT aims to fuel growth, expansion and potentially add-on acquisitions, and looks to enable a company to solidify its trajectory and enhance its strategic positioning in the market.”

Fund IV ’s will seek early venture opportunities in a “world-class management team, typically composed of serial entrepreneurs, is disrupting and improving the market in which it operates with innovative, technology-driven solutions that have the potential for outsized growth and investment returns.”

**Investment Team:**

Oak HC/FT’s Co-Founders have worked together for nearly 20 years and have an average of 31 years of private equity experience. The Co-Founders are supported by a strong team of 20 investment professionals, which includes a General Partner and three Partners.

Oak HC/FT’s Co-Founders are the sole members of the Investment Committee.

Name	Title	Yrs. Experience With Firm/Total	Prior Experience
<b>Ann H. Lamont*</b>	Co-Founder and Managing Partner	7 / 38	Oak Investment Partners; Hambrecht & Quist
<b>Andrew W. Adams*</b>	Co-Founder and Managing Partner	7 / 22	Oak Investment Partners; Capital Resource Partners; Alex.Brown
<b>Patricia F. Kemp*</b>	Co-Founder and Managing Partner	7 / 32	Oak Investment Partners; Cendant (formerly CUC International); Hewlett Packard; Merrill Lynch
<b>Nancy Brown</b>	General Partner	7 / 33	McKesson Technology Solutions; MedVentive; athenahealth
<b>Matt Streisfeld</b>	Partner	6 / 15	LLR Partners; Lightyear Capital; Keefe, Bruyette & Woods
<b>Dan Petrozzo</b>	Partner	3 / 35	Intralinks; Goldman Sachs; Fidelity Investments; Morgan Stanley; Deutsche Bank AG
<b>Billy Deitch</b>	Partner	3 / 12	Francisco Partners; TPG Growth; UBS

\*Investment Committee Member



**Investment Highlights:**

- Technology/Venture Partners
- Reputation
- Sector Expertise
- Executive in Residence

**Investment / Risk Considerations:**

- Key Person
- Fund Size
- Change in Regulatory Environment
- Business & Market Risk in post COVID-19 Environment

**PSERS History & Performance:**

This would be PSERS' first investment with Oak HC/FT.

**Investment Committee Disclosure:**

<b>Relationship with Hamilton Lane:</b>	<p>Eleven discretionary Hamilton Lane clients and commingled products have committed an aggregate \$194.3 million across prior Oak HC/FT funds. Additionally, two discretionary Hamilton Lane clients and commingled products have made co-investments alongside Oak HC/FT totaling approximately \$10.0 million.</p> <p>Preliminary Hamilton Lane allocation data as of December 8, 2020, indicates that eighteen discretionary Hamilton Lane clients and commingled products plan to commit an aggregate \$265.8 million to Oak HC/FT IV. Please note that this information is subject to change pending client by client discussions at Hamilton Lane's Allocation Committee and is available to PSERS upon request.</p>
<b>Introduction Source:</b>	PSERS Staff
<b>Placement Agent:</b>	Oak HC/FT Management Company, LLC has not and will not enter into any agreement and/or other arrangement to pay a fee to and/or to otherwise compensate any placement agent, finder, intermediary or other individual to identify, contact, and/or solicit investors to invest in Oak HC/FT Partners IV, LP.
<b>PA Political Contributions:</b>	None Disclosed
<b>PA Presence:</b>	None
<b>Potential Conflicts:</b>	We are not aware of Oak HC/FT having any material conflicts with PSERS' investment in the Fund.
<b>Litigation Disclosure:</b>	Oak HC/FT may be 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.
<b>First Time Fund With PSERS:</b>	Yes
<b>PSERS Allocation Implementation Committee Approval:</b>	December 18, 2020



# Hamilton Lane

December 14, 2020

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

Re: Oak HC/FT Partners IV, L.P.

Dear Trustees:

Oak HC/FT Management Company, LLC ("Oak HC/FT," "General Partner") was founded in 2014 and has exclusively targeted healthcare and financial technology opportunities since inception. The General Partner is led by Annie Lamont, Andrew Adams, and Patricia Kemp (collectively, "the Co-founders") who possess an average of 30 years of industry experience, which positions Oak HC/FT as a knowledgeable, sector-focused investor and preferred partner. The General Partner's investment team is organized by sector domain, which has allowed professionals to develop meaningful industry knowledge, starting at the junior level. The investment team is supported by a team of Technology, Venture and Talent Partners ("TVT Partners"), as well as senior advisors who assist with portfolio company diligence and value-added initiatives in areas of their respective expertise. Oak HC/FT has demonstrated a commitment to the development and growth of its team, evidenced by the historical promotion of investment professionals at the close of each respective fund. The General Partner also incentivizes professionals by broadly distributing carried interest across the firm down to the senior analyst level. Oak HC/FT is targeting \$1.1 billion in commitments from limited partners for its fourth fund, Oak HC/FT Partners IV, L.P. (the "Fund"). Oak HC/FT plans to hold a first and final close for the Fund on February 17, 2021.

The General Partner will maintain a consistent focus by continuing to target investments within the healthcare and financial technology sectors. While Oak HC/FT primarily targets companies operating within the United States, the General Partner may also leverage its industry relationships on a global scale to opportunistically source investments within Europe and Israel. The domain expertise of investment professionals also has enabled Oak HC/FT to expand its target investment type to include a variety of stages such as early-stage venture capital, growth and later-stage growth opportunities. Oak HC/FT frequently partners with strategic members of its network and leverages its TVT Partners and senior advisors to execute value-added initiatives. The General Partner intends primarily to add value through active board participation, which allows Oak HC/FT to maintain significant oversight of portfolio companies and provide operational guidance in areas of key business functions. The Fund will target 12 to 13 growth equity investments, four to six early-stage venture investments, and two to three later-stage growth equity investments. Investment sizes will range from \$45 million to \$75 million for growth equity investments, regardless of stage, and approximately \$25 million for early-stage venture investments. Oak HC/FT has generated top-quartile performance across Funds I, II, and III on a TVPI basis; Funds II and III have generated top-quartile performance on a net IRR basis.

Oak HC/FT Partners IV, L.P.'s investment thesis can be summarized as follows:

- Oak HC/FT has a reputable organization supported by a cohesive, experienced senior team.
- The General Partner is a sector-focused investor with a thematic investment approach.
- The team has generated attractive performance across prior funds albeit largely unrealized.



# Hamilton Lane

Hamilton Lane's recommendation is based upon the following analytical factors and is made within the context of the 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 on October 22, 2020; the on-site due diligence was conducted on December 1, 2020; the fund was approved by Hamilton Lane's Investment Committee on December 14, 2020; and the recommendation to PSERS was issued on December 14, 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 Oak HC/FT'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:

Miguel Luiña – Principal, San Francisco Office  
Jeff Sowden – Associate, Bala Cynwyd Office  
Kelley Jamieson – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$100 million in Oak HC/FT Partners 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,  
Chief Client Officer

Corina English,  
Principal