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Public Investment Memorandum

**Incline Elevate Fund II, L.P.**

Private Equity Fund Commitment

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**Darren C. Foreman, CAIA**

Director, Private Equity

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Manager, Private Equity

September 13, 2021



### **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 \$100 million plus reasonable normal investment expenses in Incline Elevate Fund II, L.P. ("Elevate II" or the "Fund") and/or related investment vehicles.

Incline Management, L.P. ("Incline" or the "Firm") is raising the Fund to pursue control-oriented equity investments in lower middle market companies in the value-added distribution, business services and specialized light manufacturing sectors, primarily in the United States and Canada.

Fund Name	Incline Elevate Fund II, L.P.
Firm Name	Incline Management, L.P.
Target Fund Size / Hard Cap	\$500 Million / TBD
Recommended Commitment Amount	\$100 million
Existing Relationship	Yes
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Equity / Buyout
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments Darren C. Foreman, Director Luke M. Jacobs, Manager
External Consultant Oversight	Hamilton Lane Advisors, L.L.C.

### **Firm Overview:**

Based in Pittsburgh, Pennsylvania, Incline was a wholly owned subsidiary of the PNC Financial Services Group, Inc ("PNC") and was spun out in 2011 to form Incline. The Firm is led by their three Principals: Jack Glover, Justin Bertram, and Leon Rubinov, the Incline team is made up of 47 employees in two offices, Pittsburgh, and New York City. The team began working together in 1998 and has a 20-year track record of investing across multiple economic cycles. Incline has approximately \$2.4 billion of committed capital across its prior funds.

The Incline platform is made up of five individual units: The Investment Team, Technology and Operations, Business Development, Finance and Compliance, and Investor Relations.

Incline Management, L.P. is owned by Jack Glover, Justin Bertram, and Leon Rubinov with a passive, non-voting, minority interest owned by investment vehicles managed by Goldman Sachs Asset Management ("GSAM"). GSAM does not have any rights with respect to the direction of the management, operation, or capitalization of Incline or any Incline fund.

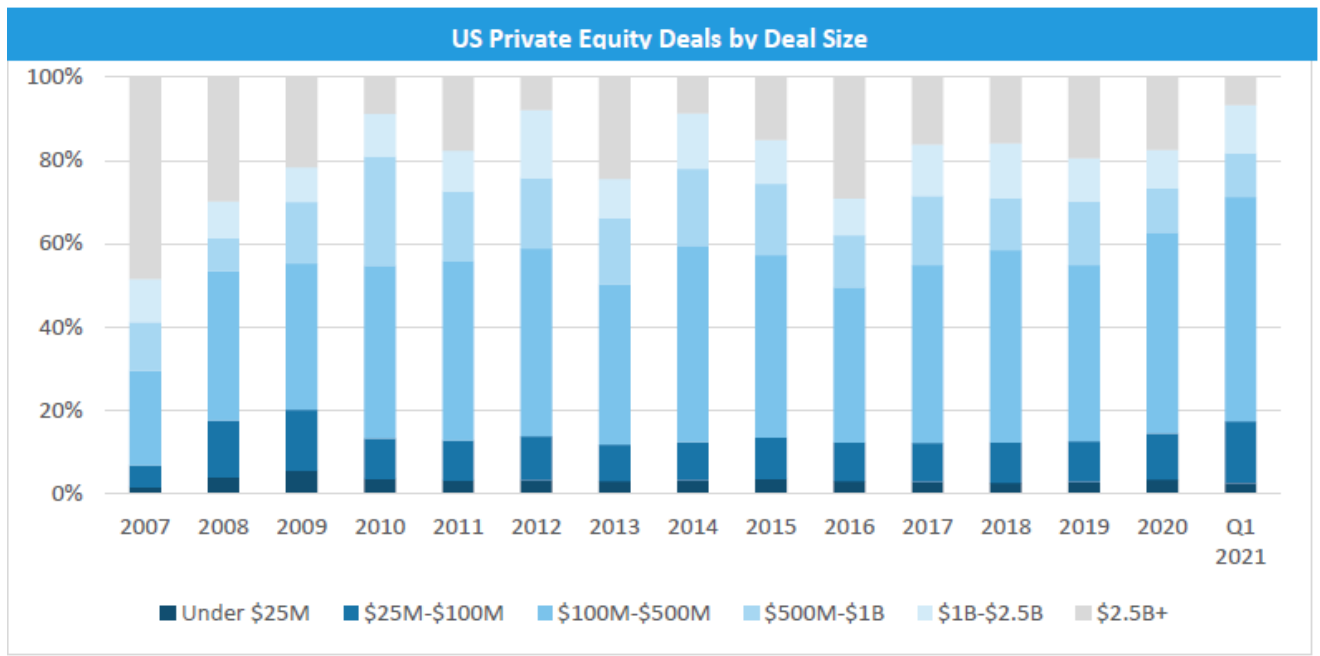


### **Market Opportunity:**

PSERS believes that the lower end of the private equity middle market will continue to provide appealing returns going forward.

Elevate II will focus on making control-oriented investments in attractive businesses operating in the lower end of the North American middle market. The Firm and the Elevate investment team have historically focused on the lower middle market and believe this sector offers the ability to generate strong risk adjusted returns.

Incline's underlying market is large. As displayed in the graph below, the number of middle market companies for sale at any given time is substantial. According to Pitchbook's Q1 2021 report, the middle market private equity transactions under \$100M represents roughly 67% of all deal volume in Q1 2021. This is the space Elevate plans to transact in.



Incline has indicated to PSERS that the purchase price multiples in the lower middle market tend to be lower as compared to multiples paid for larger businesses. The main reasons for this are:

- The sales processes for lower middle market companies tend to be less efficient than those for larger companies. Smaller transactions are typically executed by investment banking boutiques and business brokers with fewer resources than their more sophisticated counterparts.
- Secondly, in addition to sales processes being less efficient, senior and mezzanine debt capital is often not as readily available in this segment of the market. The lack of debt capital is an advantage for firms like Incline.



- Thirdly, small companies frequently lack some key element of a complete business strategy or management team.

Also, there is generally “room for improvement” among this market segment. Both PSERS and Incline believe that companies in the lower end of the middle market are appealing because they often have not fully exploited their competitive advantage and/or market opportunity and accordingly smaller companies are generally more responsive to changes that strengthen their management teams, strategic plans, or operation practices. In smaller companies, Incline believes it is often easier to identify best practices and operational adjustments that will grow a company and enhance enterprise value beyond a strict reliance on financial leverage or exit multiple arbitrages.

**Portfolio Fit:**

A commitment to the Fund will be allocated to the Buyout bucket of PSERS’ Private Equity portfolio. The table that follows summarizes PSERS’ projected Private Equity portfolio exposure, as of March 31, 2021, inclusive of a recommended \$100 million commitment to the Fund:

Investment Type	Market Value	Unfunded <sup>1</sup>	Total Exposure	%	Pending Current Commitments		
					Oct 2021	Total Exposure	%
Buyout	\$ 7,991	\$ 4,719	\$ 12,710	73.5%	\$ 100	\$ 12,810	73.1%
Growth Equity	1,029	881	1,910	11.0%	125	2,035	11.6%
Venture Capital	911	348	1,259	7.3%	-	1,259	7.2%
Internal Co-Invest	1,145	265	1,410	8.2%	-	1,410	8.1%
<b>Total</b>	<b>\$ 11,076</b>	<b>\$ 6,213</b>	<b>\$ 17,289</b>	<b>100.0%</b>	<b>\$ 225</b>	<b>\$ 17,514</b>	<b>100.0%</b>

<sup>1</sup> Includes commitments approved by the PSERS Board through September 2021  
Dollar amounts are in millions.

**Investment Strategy:**

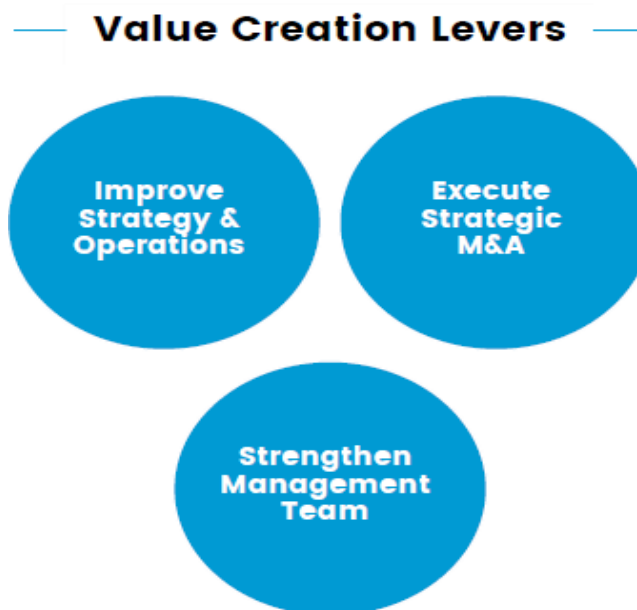
The Fund will follow the same investment strategy that Incline developed and implemented in their prior fund, Incline Elevate, L.P. PSERS believes Incline’s investment strategy represents an attractive opportunity to invest with an experienced investment manager targeting an underserved niche of the private equity market. PSERS and Incline believe the lower middle market offers attractive investment opportunities to experienced investors because it remains a less efficient market and because companies in this segment are often more receptive to, and more in need of, operational focus and strategic discipline. Elevate II will seek to make control-oriented equity investments generally between \$35 million and \$95 million in size. The core elements of the Fund’s investment strategy are:

**Lower Middle Market Specialization in Three Core Business Sectors** - Elevate II intends to continue Incline’s strategy of pursuing control-oriented equity investments in lower middle market companies in the value-added distribution, business services, and specialized light manufacturing sectors. Elevate II will primarily focus on companies in the U.S. and Canada. Incline has focused on these three sectors since the Firm’s founding in 2001.

Within value-added distribution, these businesses are generally characterized by significant barriers to entry because of route density, regional economies of scale and meaningful supplier and/or customer relationships. For business services, Elevate II will seek to invest in outsourced services where providers

perform an outsourcing function, feature a recurring or predictable revenue stream, and possess a strong tie-in to each customer's operation. Lastly, with regards to specialized light manufacturing, Elevate II will generally target niche manufacturers who operate in smaller, niche markets (i.e., market sizes that are typically less than \$750 million), where, in Incline's experience, customers value the manufacturer's brand or service capabilities, and the threat of offshore competition is more limited.

**Focus on Durable Businesses with "Multiple Ways to Win"** - Elevate II intends to focus on "durable businesses with multiple ways to win" in continuation of the strategy that has been employed by Incline over its history. Elevate II will seek to identify investment opportunities that they believe offer downside protection through defensible market positions and strong financial profiles, while also offering the potential for upside through multiple opportunities for value creation. Incline's value-creation strategies typically focus on (i) identifying areas for strategic and operational improvement, (ii) completing strategic add-on acquisitions and (iii) augmenting a company's management team and board of directors when appropriate.



The Elevate II team will begin to screen for value-creation opportunities during its initial evaluation of an investment opportunity. This value-creation strategy is further refined during the team's due diligence and in discussions with company management, its network of operating executives, and other industry experts. Following an investment, the Elevate II team will work closely with company management to execute and adjust, if necessary, the company's value-creation strategy.

**Active Management and Operational Focus** – Elevate II will generally target opportunities where it is believed active management in developing strategies, supporting growth, improving business practices, and making acquisitions have the potential to drive meaningful improvements in company performance. Incline has an operational focus and works closely with portfolio company management teams to seek to execute on the company's value-creation plan. Incline maintains regular contact with its portfolio company CEOs through scheduled weekly or bi-weekly conference calls, quarterly board of directors' meetings and annual progress update meetings as well as through frequent unscheduled meetings and conference calls. During these interactions, discussions frequently revolve around Incline's business metrics measurement package, or rolling 100-day plan, which is implemented and maintained with each portfolio company in an effort to track the company's tactical progress toward achieving its value-creation plan. This business metrics measurement package typically includes company-specific operating metrics (e.g., profitability per route,



lines per order, calls per day) as well as historical and forecasted financial information. This process often will include the participation of one or more of Incline's operating executives on a portfolio company's board of directors, as well as members of Incline's dedicated Technology & Operations team, which is believed to help drive specific value-creation strategies, particularly those focused on technology, systems, eCommerce, digital marketing, and sales force effectiveness.

**Trusted Network of Operating Executives** – PSERS recognizes that Incline has built a strong network of relationships with operating executives specific to its core business sectors. This network will be used for origination purposes, in both sourcing as well as assistance with due diligence, portfolio management and value creation. Oftentimes, these operating executives will also serve on a portfolio company's board of directors.

**Thoughtfully Planned Exit Strategy** – Incline's focus on value creation and leaving value for the next buyer creates attractive strategic exit alternatives for its portfolio companies. The Incline team always "starts with the end in mind" by crafting a value-creation strategy aimed at developing the corporate attributes that potential future buyers would value the most. This strategy typically begins to take shape during the due diligence process through discussions with company management, industry experts, competitors, customers, suppliers and potential acquirors of the target company. During these discussions, Incline seeks to form a deeper understanding of the strengths and weaknesses of a company relative to its market position and begins to develop its investment thesis and value-creation strategy to seek to optimize this position. Once the strategic plan is formed, Incline will monitor progress with an eye towards showing traction in the growth levers, while being mindful to leave additional runway for growth for the next buyer. By balancing value creation execution with leaving a clear growth vision for the next buyer, Incline seeks to maximize return opportunities.

**Differentiated, Firm wide Sourcing Strategy** - Elevate II will seek to leverage Incline's differentiated approach to business development and strong market presence to drive deal flow and a growing pipeline of future opportunities for the Fund. PSERS views Incline as an industry leader in the use of social media and digital marketing for the purposes of business development. This content seeks to promote Incline's strong brand identity and differentiated, collaborative, and people-oriented culture, which PSERS believes differentiates Incline from its peers. The Firm proactively cultivates a network of resources across the U.S. and Canada comprised of intermediaries, executives, attorneys, accountants, and consultants in order to seek to increase the flow of quality deals that fit within the investment strategy of its funds. The high touch nature of this plan seeks to provide early identification of opportunities, which should allow the Firm to also leverage its network of industry executives to analyze and better understand potential new opportunities. PSERS believes that this sourcing strategy, coupled with a strong brand identity, often positions Incline as the "buyer of choice" for sellers.

**Investment Team:**

The Incline team is comprised of 47 professionals, across two offices, Pittsburgh, PA., and New York City. The table below lists the investment team for the Fund:

<b>Name</b>	<b>Title</b>	<b>Office</b>
Jack Glover	Managing Partner	Pittsburgh, PA.
Tom Ritchie	Partner	New York City
Evan Weinstein	Partner	New York City
Victor Martinelli	Managing Director	New York City
Bennett Salvatora	Vice President	New York City



Blake Shapskinsky	Vice President	New York City
Allen Jackson	Senior Associate	New York City
Dan Doherty	Associate	New York City
Jon Potter	Associate	New York City
Julia Evans	Associate	New York City

Jack Glover, Tom Ritchie, Evan Weinstein and Victor Martinelli will oversee the day-to-day activities of the Fund. Elevate II investments will require the unanimous approval of these four professionals. In addition, they will be supported by six additional investment professionals.

As an opportunity becomes more actively considered, the team will work closely with company management and, if applicable, the introducing intermediary, to complete its evaluation with particular emphasis placed upon key issues. The Partners will typically hold extensive discussions with their network of operating executives as well as with other industry experts to seek to develop a better understanding of a portfolio investment candidate's market and to further refine the company's value-creation strategy.

After acceptance of an investment proposal, the investment team will typically lead the due diligence process, manage the scope of work to be performed by the necessary third-party consultants, secure debt financing commitments and negotiate appropriate legal documents. As part of this due diligence process, Incline will typically perform primary management assessments, market analyses, competitive benchmarking, operational assessments, information technology evaluations, financial and accounting analyses, ESG analyses including environmental assessments, supplier references and customer references research. Once the investment team has reached consensus in its support for the investment, the findings of their due diligence, along with an outline of the post-closing value-creation initiatives, will be presented for formal investment committee approval.

#### **Investment Highlights:**

- Attractive Dynamics of Lower Mid-Market Space
- Successful History of Value Creation Initiatives
- Leverage Broader Incline Platform
- Incline's Unique Sourcing Engine
- Durable Business Sector Focus

#### **Investment / Risk Considerations:**

- Continue to Execute on Stated Strategy
- Larger Fund Size than Previous Elevate Fund
- Smaller Companies May Exhibit More Volatility Risks

#### **PSERS History & Performance:**

This will be PSERS' seventh fund investment with Incline, and the second commitment to the Elevate strategy. The table below summarizes PSERS' performance with Incline as of March 31, 2021 (in millions):



Fund	Vintage Year	Original Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
PNC Equity Partners	2001	\$39	\$43	\$77	\$0	21.1%	1.96x
PNC Equity Partners II	2007	\$68	\$58	\$124	\$0.2	14.8%	2.14x
Incline Equity Partners III	2011	\$65	\$70	\$156	\$31	34.9%	2.68x
Incline Equity Partners IV	2017	\$90	\$70	\$33	\$68	24.0%	1.46x
Incline Equity Partners V	2020	\$150	\$0	\$0	\$0	N.M.	N.M.
Incline Elevate	2019	\$75	\$19	\$2	\$89	278.5%	4.65x
<b>Incline Total</b>		<b>\$ 488</b>	<b>\$ 259</b>	<b>\$ 395</b>	<b>\$ 190</b>	<b>21.4%</b>	<b>2.27x</b>

**Investment Committee Disclosure:**

<b>Relationship with Hamilton Lane:</b>	Preliminary Hamilton Lane allocation data as of August 25, 2021, indicates that six discretionary Hamilton Lane clients and comingled products plan to commit an aggregate \$60M to Incline Elevate Fund II. 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.
<b>Introduction Source:</b>	Existing Relationship.
<b>Placement Agent:</b>	In accordance with Board policy, no placement agents were used, and no payments from or on behalf of PSERS to Placement Agents shall be made in connection with securing PSERS' investment in the Fund.  Any placement fees charged to the Fund in connection with securing commitments from other investors (excluding PSERS) will result in a corresponding reduction to PSERS' management fees.  As confirmed by PSERS' Office of Chief Counsel on September 9, 2021 this investment complies with the Public-School Employees' Retirement Board Placement Agent Policy.
<b>PA Political Contributions:</b>	None Disclosed.
<b>PA Presence:</b>	Yes, one portfolio company.
<b>Potential Conflicts:</b>	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
<b>Litigation Disclosure:</b>	Incline 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.
<b>First Time Fund With PSERS:</b>	No
<b>PSERS Allocation Implementation Committee Approval:</b>	September 13, 2021