



Hamilton Lane

November 28, 2022

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

Re: Clayton, Dubilier & Rice Fund XII, L.P.

Dear Trustees:

Clayton, Dubilier & Rice, LLC (“General Partner”, “CD&R”) was formed in 1978 by Eugene Clayton, Martin Dubilier and Joseph Rice to pursue buyout investments and has established a strong brand and platform within its target sectors. By 1989, Messrs. Clayton, Dubilier and Rice had all retired from the firm and had transitioned senior responsibilities to be led by Donald Gogel. The General Partner executed its fourth leadership transition in 2020, promoting Nathan Sleeper to CEO and Richard Schnall and David Novak to Co-Presidents, who collectively average 24 years of tenure and 29 years of total experience. The Executive Team is supported by 13 Financial Partners who average approximately 16 years of tenure and 26 years of total experience and contribute meaningful expertise to the investment process. CD&R’s senior group is supported by a well-balanced team of mid-and junior-level professionals who are organized by sector to enhance specialization and industry expertise. The General Partner benefits from its Operating Partners and Operating Advisors who specialize by sector and drive value-add capabilities at portfolio companies. Operating Partners work with investment professionals to develop investment themes, source new investments, develop post-acquisition business plans, oversee management progression, ensure organizational effectiveness, drive value creation initiatives, and encourage ESG actions at portfolio companies. CD&R encourages internal development and retention, demonstrated by minimal turnover amongst its senior professionals. The General Partner broadly distributes carried interest down to the Principal level and across Operating Partners, aligning incentives across the firm. The General Partner is targeting \$20 billion with a hard cap of \$23 billion in commitments from limited partners for its twelfth fund, Clayton, Dubilier & Rice Fund XII, L.P. (the “Fund”). CD&R held a first close in September 2022, with a final close expected in first-half 2023. The General Partner will commit at least 5.0% of commitments to invest in or alongside the Fund.

In line with prior funds, the General Partner thematically targets opportunities located within the industrials, healthcare, consumer & retail, technology and services sectors and expects to opportunistically target businesses in the financial services sector. CD&R expects to allocate approximately 30% of the Fund to industrials, 25% to healthcare, 20% to technology, 15% to consumer & retail and 10% to business services. Additionally, the General Partner may opportunistically target financial services investments as it builds out its dedicated sector team. CD&R continues to primarily pursue businesses located in the United States and Europe, where the General Partner has established networks and resources. CD&R intends to allocate approximately 70% of the Fund to North America-based companies and approximately 30% to Europe-based companies. The General Partner benefits from sourcing capabilities within its investment and operating team, leading to attractive direct and limited auction opportunities. CD&R targets control-oriented investments where it can establish governance and contribute meaningful improvements within its businesses and leverages its operating team, specialized by sector, to partner with portfolio companies and refine business strategies, driving value creation. The General Partner continues to remain flexible regarding investment sizes, targeting equity checks from \$300 million to \$2.5 billion. CD&R has generated top-quartile performance in Funds VIII, IX and X on a net IRR, DPI and TVPI basis, while Fund XI remains early in its development. As of 6/30/22 the General Partner had generated top-quartile returns across all metrics in its mature funds.



Clayton, Dubilier & Rice Fund XII, L.P.'s investment thesis can be summarized as follows:

- Longstanding organization led by cohesive investment and operating teams
- Vertically-driven investment mandate contributes to diligence, sourcing and value-add capabilities
- Attractive performance across prior funds with limited loss ratio

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 May 4, 2022; the on-site due diligence was conducted on May 24, 2022; the fund was approved by Hamilton Lane's Investment Committee on June 17, 2022; and the recommendation to PSERS was issued on November 28, 2022.
- 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 Clayton, Dubilier & Rice'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 – Global Co-Head of FIT, Conshohocken Office

Jeff Sowden – Senior Associate, Conshohocken Office

Nicholas Li – Analyst, Conshohocken Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$100 million, plus reasonable normal investment expenses, to Clayton, Dubilier & Rice Fund XII, L.P. (and/or related investment vehicles). 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,

Corina English,
Principal