



Investment Committee Memorandum

Clearlake Capital Partners VI L.P.

Private Equity Asset Class

December 3, 2019

**Investment Recommendation**

SERS' Investment Office Staff and SERS' Private Equity Consultant, StepStone Group, recommend that the State Employees' Retirement System Investment Committee, subject to further legal due diligence, interview Clearlake Capital Group, L.P. ("Clearlake", the "GP" or the "Firm") at the December 3, 2019 Investment Committee Meeting to consider a potential investment of up to \$75 million in Clearlake Capital Partners VI, L.P. ("CCP VI", the "Fund" or the "Clearlake VI"). SERS has previously committed a total of \$70 million to the two prior Clearlake flagship funds, Clearlake IV and Clearlake V, as well as \$75 million to Clearlake Opportunities Partners II, a non-control investment strategy in SERS' Private Credit portfolio.

**Investment Rationale**

Staff identified CCP VI as a strong candidate for SERS' capital commitment as it offers:

- Additional exposure to a high-quality manager that has generated strong net returns since inception;
- Additional exposure to a private investment manager that outperforms private peers and public indices;
- Some downside protection in the form of structured equity investments. These types of investments are expected to comprise approximately 20% of invested capital in CCP VI, depending on market conditions;
- A strategy led by a team that has invested successfully across economic cycles, with the knowledge and ability to pivot into distressed situations;
- Capital preservation as evidenced by lower than industry loss ratios;
- A commitment to CCP VI is consistent with SERS' strategy of concentrating commitments to top-tier managers.

**Investment Risks**

Staff identified the following potential risks of a commitment to CCP VI:

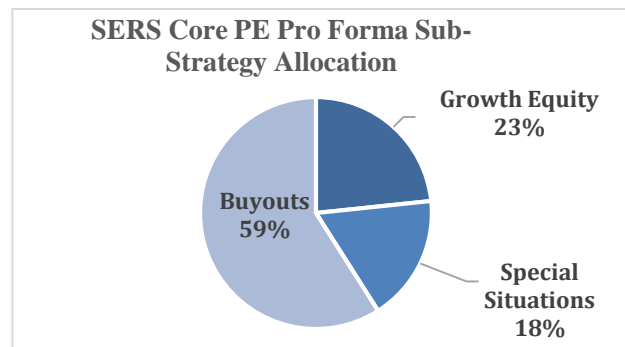
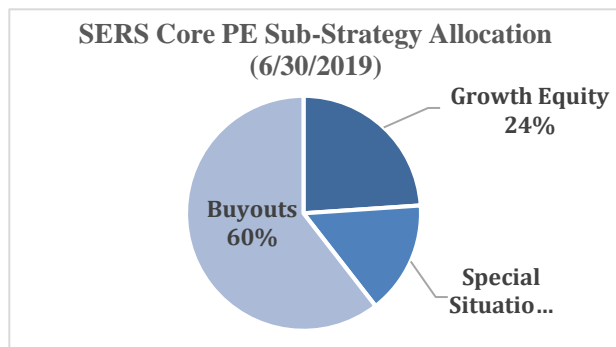
- Investment team capacity to effectively invest both the Clearlake flagship private equity funds and the COP funds.
- Potential conflicts with Clearlake flagship private equity funds having overlap in investments with the COP funds.

**Portfolio Implications**

A commitment to CCP VI would be considered a 2019 vintage allocation to a fund which is categorized in the Private Equity asset class and Special Situations sub-asset class. As of June 30, 2019, SERS' total exposure (market value plus unfunded commitments) to Special Situations represented approximately 16% of the total Private Equity portfolio.

An allocation to Clearlake VI is consistent with the strategic initiatives of "making fewer, larger commitments to top-tier managers" as outlined in SERS' Strategic Investment Plan. SERS is targeting a commitment to Clearlake VI of up to \$75 million, which represents 11.5% of the strategic plan pacing budget for the private equity asset class in 2019.

The following two charts show SERS' Core PE portfolio allocations by sub-strategy as of June 30, 2019 on the left and a prospective view of the allocation post a commitment to Clearlake VI on the right. Clearlake VI can be expected to add approximately 2.0% of market value to Special Situations over the next several years, before the effects of future cash flow or capital gains activity.



## Sponsor Overview

Founded in 2006, Clearlake is led by José E. Feliciano and Behdad Eghbali (the “Co-Founders”). Prior to forming Clearlake, Mr. Feliciano was a Partner and investment committee member at Tennenbaum Capital Partners, a distressed/special situations firm. Mr. Eghbali was previously an investment professional at Texas Pacific Group (“TPG”), where he focused on buyouts, turnarounds, and other complex restructurings. Focusing on North America, the Firm employs a sector-driven approach of investing in technology, industrials, consumer, energy and business services.

Clearlake takes a value-oriented mentality to investing and opportunistically invests across capital structures in both equity and credit securities. The Firm seeks to partner with world-class management teams by providing patient, long-term capital to dynamic businesses that can benefit from Clearlake’s operational improvement approach, O.P.S.® (Operations, People, and Strategy). Collectively, the Clearlake team brings more than 200 years of investment experience to bear, and its senior investment professionals have led or co-led investments in over 100 transactions.

## Investment Strategy

Clearlake Capital Partners VI is being formed to pursue control-oriented investments in North American, middle market companies in four key sectors: tech, industrials, consumer and energy. In certain market conditions, the Fund may also pursue distressed debt and special situations investments. The investment strategy and philosophy allow Clearlake to flex between value buyout transactions, distressed debt-for-control, and special situations/structured equity. This flexibility creates an “all-weather” type of investment strategy that can be successful in good economic times and bad.

The Fund VI anticipates building a portfolio of 20-25 investments that will require between \$100 million and \$500 million of initial investment capital.

Clearlake’s investment philosophy is cemented through the following key tenets:

- Flexible and Creative Approach to Investment Structure
- Sector Driven Philosophy
- Exploit Inefficient Markets
- Value Focus

## Management Team

**José E. Feliciano**, *Managing Partner and Co-Founder*. Mr. Feliciano co-founded Clearlake in 2006. Prior to that, he was a Partner and member of the investment committee at Tennenbaum Capital Partners, a private investment firm focused on distressed and other special situations investments. Before joining Tennenbaum, he served as Chief Financial Officer of govWorks, Inc., a payments and other services provider to the public sector. Prior to govWorks, Inc., Mr. Feliciano worked in investment banking at Goldman, Sachs & Co. Mr. Feliciano graduated with High Honors from Princeton University, where he received a B.S. in Mechanical & Aerospace Engineering. He received his M.B.A. from the Graduate School of Business at Stanford University.

**Behdad Eghbali**, *Managing Partner and Co-Founder*. Mr. Eghbali co-founded Clearlake in 2006. Prior to co-founding Clearlake, Mr. Eghbali was a private equity investor at TPG where he focused on buyouts, turnarounds and other investments in the TMT sectors. Before joining TPG, Mr. Eghbali was a Partner at Venus Capital Management, Inc. and affiliates, a multi-strategy hybrid fund, where he focused on special situations. Prior to that, he was the Vice President of Business Development at Turbolinux, Inc., a software and services provider. Prior to that, Mr. Eghbali worked in investment banking at Jefferies & Co. and in the Technology Group at Morgan Stanley & Co. Mr. Eghbali graduated with a B.S. in Business Administration from the Haas School of Business at the University of California, Berkeley.

**Colin Leonard**, *Partner*. Mr. Leonard joined Clearlake in 2007. Prior to joining Clearlake, he was an investment professional at HBK Investments L.P. where he focused on distressed investments in the industrials and transportation/logistics sectors. Mr. Leonard currently serves as a director on several Clearlake portfolio company boards, including Gravity, Jacuzzi Brands, Janus International, Knight, Smart Sand and Wheel Pros. Mr. Leonard graduated cum laude with a B.S. in Economics (Wharton School) and a minor in Mathematics at the University of Pennsylvania.

**Prashant Mehrotra**, *Partner*. Mr. Mehrotra joined Clearlake in 2010. Prior to joining Clearlake, he was a Principal at Silver Lake Partners, where he focused on investments in technology and technology enabled industries. Before that, Mr. Mehrotra was a Principal at Tennenbaum Capital Partners. Prior to Tennenbaum, he worked in investment banking in the Technology, Media and Telecommunications Group at Goldman, Sachs & Co. Mr. Mehrotra graduated with a B.S. and M.S. in Industrial Engineering from Stanford University, where he was also a Mayfield Fellow, and he received his M.B.A. from the Kellogg School of Management at Northwestern University.

**James Pade**, *Partner*. Mr. Pade joined Clearlake in 2013. Prior to joining Clearlake, he was an investment professional at TowerBrook Capital Partners, where he focused on leveraged buyouts and distressed debt investments. Before that, Mr. Pade was an investment banker at Credit Suisse. He started his career at Google and played professional tennis on the ATP Tour. He graduated with a B.A. in Economics, with Honors in Science, Technology & Society from Stanford University.