



To: San Bernadino County Employees Retirement Association (SBCERA)
From: NEPC, LLC
Date: December 15, 2025
Subject: Recommendation of Consent for Clearlake Acquisition of Pathway

Executive Summary:

On November 12, 2025, Clearlake Capital Group, L.P. ("Clearlake") announced that it had entered a definitive agreement to acquire 100% of Pathway Capital Management ("Pathway" or the "Firm").

This transaction involves a change in control, resulting in a request for consent from Limited Partners. As an LP in multiple Pathway funds, SBCERA will be required to consent to certain matters in connection with the transaction based upon its individual relationship with Pathway. This memo provides both an assessment of the potential risks and opportunities associated with this transaction and a recommendation for submitting consent.

The deadline to submit consent forms is December 29, 2025.

Description of Event:

On November 12, 2025, Clearlake Capital Group, L.P. ("Clearlake") announced that it had entered into a definitive agreement to acquire 100% of Pathway Capital Management ("Pathway" or the "Firm"). The transaction is expected to close in the second quarter of 2026 and is subject to regulatory approvals.

NEPC held calls with Pathway on 11/17 and 11/24 that included Alex Casbolt, Partner and Managing Director, and Richard Mazer, Partner and Managing Director. As part of NEPC's due diligence regarding the transaction, we sought clarity regarding the primary motivation for the Firm to execute the transaction and the long-term alignment and integrity of the investment team.

Pathway will retain its brand and act as Clearlake's investment solutions business, enhancing capabilities across private equity, private credit, infrastructure, secondaries, and co-investments. It's important to note that the Firm will continue operating as an independent division of Clearlake under the Pathway brand with complete autonomy over investment decisions, processes, and operations. Clearlake won't be joining Pathway's investment or management committees, and proper information walls will be maintained between the two organizations. The Executive Committee will serve as the primary liaison with Clearlake senior management regarding business strategy, growth opportunities, and budgeting. The Executive Committee will consist of Alex Casbolt, Jim Chambliss, and Richard Mazer. NEPC views the Firm's independence from Clearlake as a key component of the transaction. Not only will it ensure that the Firm's investment process and philosophy will remain unchanged, but it will also help maintain the Firm's existing general partner relationships and deal flow that comes from that network.

Pathway pursued the transaction to facilitate a generational transition within the Firm. Following the completion of the transaction, the Firm's Founders, Doug Le Bon, Jim Reinhardt, and Karen Jakobi (the "Founders") interests will be bought out, and they will serve as senior advisors for six to twelve months. The Founders have been transitioning leadership responsibilities to the next generation of partners over the past decade. NEPC views this as a positive step in completing the transition of leadership.

Additionally, Pathway views Clearlake's global limited partner network, particularly in the Middle East, Israel, and Asia, as a potential source of growth for the Firm's product offerings. The Firm noted disappointment with fundraising results in recent years and believes its funds have additional capacity for growth. As a result of this transaction, Pathway believes it can leverage Clearlake's network as a source of organic growth. NEPC views this as a positive factor for Pathway's ability to raise capital in the future.

NEPC believes that alignment remains strong throughout the organization. The partners will roll nearly all their equity into the Clearlake transaction, with only minimal liquidity provided. Significant retention mechanisms have been implemented to preserve the Firm's stability. The partner's vesting schedules will reset to five years with penalties for early departure. Additionally, an equity pool is being created for approximately 45 to 50 employees, which vests over three years with a cliff. This pool will be shared with senior executives, senior investment team members, and mid-level professionals. NEPC believes the structure of the transaction, retention mechanisms, and additional equity pool are beneficial in maintaining the integrity of the investment team over future fund cycles.

Because this transaction involves a change in control, consent from Limited Partners is required. Additionally, SBCERA will be required to consent to certain matters in connection with the transaction based upon each client's individual relationship with Pathway. SBCERA should have its legal counsel and tax advisors review all waivers and amendments to Limited Partnership Agreements prior to signing. From an investment perspective, NEPC is supportive of clients electing to consent to the change of control.

Portfolio Implications:

Portfolio Implications: SBCERA's exposure to Pathway funds remains unchanged in the near term, with no anticipated alterations to existing commitments, fee structures, or investment strategies. The transaction provides potential upside through enhanced fundraising capacity (Pathway's ~\$95 billion AUM could benefit from Clearlake's networks) and possible future co-investment opportunities. Historical performance of Pathway-managed funds is expected to continue under the autonomous structure.

Aspect	Current (Pre-Transaction)	Post-Transaction Projection
SBCERA Exposure	<ul style="list-style-type: none"> Total Exposure as of 9/30/2025: ~\$866.1 mm (~5.07%) Total Commitments: 2 <ol style="list-style-type: none"> Path PE Fund VII, Pathway Capital SBCERA MCA) 	No expected impact on existing commitments. No immediate impact on NAV, calls, or distributions.
Fundraising Capacity	Recent challenges noted by Pathway for specific funds	Enhanced via Clearlake's global LP network (e.g., Middle East/Asia focus); potential for scaled future funds
Fee Structure	Standard Pathway terms	No changes anticipated; will monitor LPAs for any post-close adjustments
Strategic Opportunities	Pathway's existing deal flow and GP relationships	Potential access to expanded co-investments and product offerings

Benefits of the Transaction

NEPC views the acquisition of Pathway by Clearlake as a net positive development for existing Limited Partners, including SBCERA, for the following reasons:

- Successful Completion of Generational Leadership Transition** The transaction enables a clean and fully funded buyout of the three Founders (Doug Le Bon, Jim Reinhardt, and Karen Jakobi), completing a leadership handover that has been carefully planned and executed over the past decade. The incoming Executive Committee (Alex Casbolt, Jim Chambliss, and Richard Mazer) has already been running the firm day-to-day, minimizing succession risk and providing continuity for investors.
- Enhanced Team Alignment and Retention**
 - Partners are rolling nearly 100% of their equity into the new structure with only minimal liquidity, maintaining strong economic alignment with LPs.
 - New five-year vesting schedules with penalties for early departure and a broad-based employee equity pool (covering ~45–50 professionals and vesting over three

years) represent some of the stronger retention mechanisms NEPC has seen in similar GP-led transactions.

- These incentives significantly reduce key-person risk across multiple future fund cycles.
3. **Accelerated Growth Potential and Fundraising Capacity** Pathway has acknowledged recent fundraising challenges in a difficult market environment. Access to Clearlake's established global LP relationships—particularly in high-growth regions such as the Middle East, Israel, and Asia—provides a meaningful new distribution channel without compromising Pathway's investment independence. Larger, more diverse future fundraises should improve liquidity options, reduce J-curve effects in newer vintages, and potentially support more attractive co-investment programs for existing clients.
 4. **Preservation of Investment Process and Autonomy** Pathway will continue to operate as a fully independent division with its own brand, investment committees, processes, and deal flow. Clearlake will have no seats on investment or management committees, and robust information barriers will be maintained. This structure should protect the core elements that have driven Pathway's consistent, long-term performance while adding strategic resources from the parent.
 5. **Broader Product and Co-Investment Opportunities** The partnership positions Pathway as Clearlake's dedicated investment-solutions platform across private equity, private credit, infrastructure, secondaries, and co-investments. Over time, this is expected to translate into an expanded menu of strategies and an increased volume of high-conviction co-investment opportunities for LPs, which have historically been capacity-constrained.

In summary, the transaction resolves succession, strengthens alignment, removes prior fundraising constraints, and adds upside optionality while preserving the independence and investment approach that have made Pathway a valued manager for SBCERA. These benefits support NEPC's recommendation to consent to the change of control.

Key Risks to Monitor:

While NEPC remains supportive of consenting to the change of control from an investment perspective, the following risks should be monitored post-closing:

1. **Integration and Cultural/Operational Risks:** Despite assurances of complete autonomy, Clearlake's opportunistic and distressed-focused approach could lead to subtle cultural clashes or operational influences over time. While this risk should not be overlooked, it does not warrant declining consent or a manager status change, as explicit safeguards (e.g., no Clearlake representation on investment committees, maintained information walls, and independent operations) are in place to preserve Pathway's process and philosophy. To monitor this risk, SBCERA will watch for the following: any changes in Pathway's investment processes, strategy drift, operational efficiency indicators (e.g., delays), and changes in morale.
2. **Regulatory and Closing Risks:** Potential delays or issues with regulatory approvals could extend uncertainty, impacting interim operations or fundraising. This is almost always a risk to monitor following transactions of this size; however, we currently view the probability of this as low. The transaction remains on track for Q2 2026 closure (and could close as early as Q1) as it is being executed under relatively standard conditions. No material hurdles have

been identified to date. To monitor this risk, SBCERA will watch for the following: industry headlines, and regulatory filings.

3. **Personnel and Knowledge Transition Risks:** The Founders' departure after a 6–12-month advisory period carries risks of incomplete knowledge transfer in key areas like GP relationships. This does not warrant declining consent or a manager status change, given the thoughtful decade-long leadership transition, strong retention incentives (near-full equity rollover, reset vesting, and broad employee equity pool), and the intact executive team. To monitor this risk, SBCERA will watch for the following: key personnel departures, performance continuity, knowledge transfer effectiveness.
4. **Fundraising and Market Dependency Risks:** Growth relies on effectively leveraging Clearlake's network, which may be affected by market conditions or geopolitical factors. Additionally, recent fundraising disappointments could persist if unaddressed. This does not warrant declining consent, however, as the addition of Clearlake's network represents an upside opportunity with limited downside to existing funds, and Pathway's capacity for organic growth is viewed positively. To monitor this risk, SBCERA will watch for the following: fundraising progress, geopolitical events affecting Clearlake's key regions, capacity utilization.

In the aftermath of this transaction, we will remain mindful of the above-mentioned risks whilst engaging with Pathway. Should any of the above risks reach a level we deem concerning, we will re-assess our opinions of Pathway and respond accordingly.

Rating/Status Information

- *Current Status: No Action**
- *Proposed Status: No Action*
- *DD Rating (if strategy-specific): No Changes Made to NEPC rated Pathway Strategies*

**In managing its Watch List, NEPC utilizes five levels of action: (1. No Action, 2. Watch, 3. Hold, 4. Client Review, 5. Terminate)*

Recommendation:

From a pure investment perspective, NEPC is supportive of SBCERA and all other clients electing to consent to the change of control. However, SBCERA should have its legal counsel and tax advisors review all waivers and amendments to each of its Limited Partnership Agreements prior to signing.

