


Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: September 22, 2011

SUBJECT: TPG Opportunities Partners II, L.P. and TOP NPL (A), L.P. Recommendation

TO: Members of the Board

FROM: James H. Grossman, Jr., CPA, CFA 
Managing Director of External Public Markets, Risk & Compliance

At the October Finance Committee meeting, staff and Portfolio Advisors will recommend that PSERS commit \$100 million to the TPG Opportunities Partners II, L.P. (Fund), managed by TPG Opportunities Partners (TOP). The Fund is a limited partnership investing in corporate special situations, such as distressed debt, and asset special situations, such as non-performing loans (NPLs). We anticipate that the Fund will generate mid- to high-teens net returns over the life of the fund.

In addition, staff will recommend that PSERS commit an additional \$100 million to the TOP NPL (A), L.P. (Fund II), also managed by TOP. Fund II is a limited partnership investing solely in asset special situations, a subset of the Fund. We anticipate that Fund II will also generate mid- to high-teens net returns over the life of Fund II.

TOP was formed in 2009 by TPG Capital (TPG) in conjunction with Alan Waxman to capitalize on liquid and illiquid credit dislocations and other special situations on a dynamic basis across various economic cycles. TOP is a fully-integrated, "over-the-wall" investing platform within TPG. TOP leverages TPG's breadth of global investing experience, the turn-around capabilities of TPG's Operations Group and sector expertise of TPG's industry coverage teams.

TOP has a seasoned and cohesive investment team led by Alan Waxman. Collectively, the TOP team has over 150 years of investment experience and has generated consistent returns in all phases of the credit cycle. Staff likes the investment strategy employed by TOP. TOP will have a global mandate and the ability to gravitate to the most attractive geographies over time. TOP will use two general strategies:

1. Corporate Special Situations, investing in distressed-for control / constructive activism situations and other thematic sector dislocations (expected to be 50-60% of the Fund). Dislocations may include, but are not limited to, excessive balance sheet leverage, lack of access to capital, company-specific operational problems, poor management, and structural changes in an industry caused by innovation, regulatory change, or other macroeconomic factors; and,
2. Asset Special Situations, investing in NPLs and other distressed asset sales (expected to be 40-50% of the Fund). The Fund will acquire NPL portfolios directly from commercial banks or financial institutions at a discount to current market values. It is estimated that

there are currently \$350 billion of NPLs sitting in the U.S. banking system. TOP believes that many of these banks or financial institutions do not have adequate staffing to service delinquent and non-performing loans, particularly on smaller balance assets. TOP has built a strategic NPL sourcing and servicing platform through two asset management complexes (Roosevelt Management Company and Capital Crossing) with 180 dedicated professionals that specialize in working out small balance NPLs.

Staff especially likes the NPL opportunities given its unique nature and a lack of investment capital available in the market for these opportunities. Given the size of the opportunity, TOP has created Fund II which will be dedicated to investing solely in asset special situations. Portfolio Advisor's recommendation is to invest \$200 million in the Fund. Staff is recommending splitting this amount between the Fund and Fund II. TOP is providing discounted management fees and carry for investing in Fund II.

Included for your review are Portfolio Advisor's recommendation, a PowerPoint presentation prepared by staff, a presentation prepared by TOP who will be at the Finance Committee to present, and the resolution recommending the investment in the TPG Opportunities Partners II, L.P. and TOP NPL (A), L.P.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4703.