

**Commonwealth of Pennsylvania
Public School Employees' Retirement System**

DATE: November 15, 2012

SUBJECT: ScienS Aviation Special Opportunities Investment Fund II, LP Recommendation

TO: Members of the Board

FROM: Robert E. Little, CPA *REL*
Portfolio Manager, External Public Markets

At the December Finance Committee meeting, staff and Aksia will recommend that PSERS invest in the ScienS Aviation Special Opportunities Investment Fund II, LP (Fund). This Fund, managed by Apollo Aviation, acquires, leases, and trades aircraft, aircraft engines, and aircraft parts.

Founded in 2002, Apollo Aviation specializes in mid-life to mature aircraft. Apollo was ranked #1 worldwide among aircraft part-out specialists in 2010 and 2011 by Ascend, a leading aviation consultancy. The strategy looks to generate returns through the acquisition, lease, and sale of aircraft, aircraft engines, and aircraft parts.

Staff recommends that the Board invest \$150 million in this Fund, an amount which is within the target ranges established in Exhibit D of the Investment Policy Statement, Objectives and Guidelines as amended from time to time.

Included for your review are Aksia's recommendation letter, a presentation prepared by staff, a confidential presentation prepared by Apollo Aviation, the confidential fund terms, and the resolution recommending the investment in the Fund. Representatives from Apollo Aviation will make a presentation to the Finance Committee and will be available for any questions.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4707.

Manager Recommendation Memo

November 15th, 2012

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

Re: Sciens Aviation Special Opportunities Investment Fund II

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and herewith recommends a direct allocation to the Sciens Aviation Special Opportunities Fund II ("SASOF"). In the ongoing development of PSERS' portfolio of absolute return funds, Aksia recommends an initial allocation in line with Exhibit D of PSERS Investment Policy Statement, Objectives, and Guidelines.

SASOF seeks to purchase mid-life to end-of-life aircraft with the aim of either selling the aircraft, or disassembling them into component parts to sell them for a profit. The manager is one of a few real asset investment firms that focus exclusively on the aviation part-out space. The manager's role is to oversee the process of an aircraft's part-out or sale. The strategy involves engaging and managing a number of third-party operators and vendors to assist in the sourcing, analysis and distribution of assets. Primary risks associated with this fund include aircraft valuation risk and execution risk, including reliance on external partners.

Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines.

- Due diligence of SASOF's investment strategy, including a review of their investment strategy, investment team and structure, and risk management process.
- Pending due diligence of SASOF's operations, including an operations and infrastructure review, regulatory and compliance review, private placement memorandum review, Form ADV review, and financial statement review.
- Evaluation of SASOF's investment strategy within the context of the current investment environment.
- Appropriateness of SASOF for the Absolute Return component of PSERS' portfolio.

This recommendation is confidential, given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in SASOF, 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 SASOF. Aksia manager recommendation memos should be reviewed with other Aksia due diligence materials, including the full Investment Review and Operational Review. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,



Bruce Ruehl
Partner, Head of Portfolio Advisory, Americas



Patrick Adelsbach
Partner, Head of Event Driven Strategies



Absolute Return Program Allocation

Sciens Aviation Special Opportunities Investment Fund II, LP

December 5, 2012

Robert E. Little, CPA
Portfolio Manager, External Public Markets

Sciens Aviation Special Opportunities Investment Fund II, LP

Overview of Apollo Aviation

- Founded in 2002
- In 2007, entered into a 50% joint venture with an affiliate of Sciens Capital Management LLC
- Specialize in mid-life to mature aircraft
- Employs 37 professionals worldwide
- Average industry experience per Principal is 23 years
- Offices located in Miami, Dublin, and Singapore
- Completed over \$900 million in aviation transactions since 2010

Overview of Sciens Capital Management LLC

- Independent alternative investment manager located in New York City
- \$4.7 billion in assets under management

Sciens Aviation Special Opportunities Investment Fund II, LP

Market Opportunity

- Commercial aircraft and their parts are governed by sovereign regulatory bodies
- Financing for used aircraft purchases has dried up reducing both the demand and the prices for the used aircraft
- Manufacturers of original equipment manufacturer (OEM) parts continue to increase their prices for new parts annually
- Historically, used part price increases are correlated to new part price increases
- Used aircraft and aircraft parts are complex requiring extensive technical and regulatory knowledge
- The combination of these factors makes tearing down older aircraft economically attractive

Sciens Aviation Special Opportunities Investment Fund II, LP

Fund Overview

- Fund size is \$500 million with a hard cap of \$550 million
- Net return target of 20%

Fund Strategy

- Acquire, lease, and trade aircraft, aircraft engines, and aircraft parts
- Focus on in-production aircraft and engines
- Supply OEM parts to airlines by dismantling surplus aircraft and consigning the parts to consignment shops
- Diversify the portfolio by aircraft type and engine type

Sciens Aviation Special Opportunities Investment Fund II, LP

Investment Team

- Bill Hoffman, Chairman and Co-founder: involved in aviation transactions since 1994
- Robert Korn, President and Co-founder: over 15 years in the aviation industry
- Dave Treitel, Managing Director: joined Apollo in 2010, previously was the CEO of a leading aviation consultancy company

Performance

- Since 2010, Apollo has invested over \$900 million in 108 aircraft and 37 engines
- 26.7% net IRR achieved through June 30, 2012 on realized and unrealized portfolios
- 1.5x net multiple achieved through June 30, 2012 on realized and unrealized portfolios

Sciens Aviation Special Opportunities Investment Fund II, LP

Portfolio Use

- Invest \$150 million in the Sciens Aviation Special Opportunities Investment Fund II, LP and include this investment in the Absolute Return Program

History with PSERS

- This investment will be PSERS first investment with Apollo Aviation

Other

- Relationship with Aksia: None
- Placement Agents: None
- Political Contributions in PA: None
- Introduction Source: Aksia

Sciens Aviation Special Opportunities Investment Fund II, LP

Recommendation

Staff, together with Aksia LLC, recommends that the Board invest an amount not to exceed \$150 million plus reasonable normal investment expenses in the Sciens Aviation Special Opportunities Investment Fund II.

DISCLAIMER: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.



Absolute Return Program Allocation

Sciens Aviation Special Opportunities Investment Fund II, LP

December 5, 2012

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