COMMONWEALTH OF PENNSYLVANIA
Public School Employees' Retirement System

DATE: July 18, 2013

SUBJECT: Mariner Investment Group, LLC Recommendation

TO: Members of the Board

FROM: Mark Heppenstall, CFA
Managing Director of Fixed Income

Joseph W. Sheva, CPA
Portfolio Manager

At the August Finance Committee meeting, staff and Aksia will recommend PSERS invest up to $150 million in the Galton Onshore Mortgage Recovery Fund III, L.P. PSERS has invested successfully with the Galton team since 2010 in two separate fixed income mandates focused on non-agency residential mortgage-backed securities (RMBS). Galton's proprietary technology platform for analyzing credit and prepayment characteristics for both agency and non-agency RMBS has enabled their team to take advantage of valuations in the mortgage market since the credit crisis. Galton has also provided valuable analysis to PSERS internal fixed income staff even prior to our first RMBS relationship initiated in April of 2010.

The new opportunity within the mortgage market we recommend to the Board will be focused on mortgage servicing rights (MSRs) and new issue non-agency credit. The Galton team's extensive investment experience in the RMBS sector and technology for analyzing credit will provide competitive advantages for the proposed strategies. Funding for the new mandate will be made from the remaining Galton mortgage portfolio with assets of approximately $275 million. Galton is targeting a net return of 12-15% for investors in the Fund.

Included with this memo are Aksia's recommendation memo, a PowerPoint presentation prepared by staff, a presentation prepared by Galton and the resolution recommending an investment in the Galton Onshore Mortgage Recovery Fund III, L.P. Representatives from Galton will make a presentation to the Finance Committee and will be available for questions.

If you have any questions or comments prior to the meeting, please contact Mark Heppenstall at 717-720-4726 or Joe Sheva at 717-720-4632

High Yield Portfolio

Mariner Investment Group, LLC
(Galton Capital Group)

August 7, 2013

Mark E. Heppenstall, CFA
Managing Director of Fixed Income

Joseph W. Sheva, CPA
Portfolio Manager

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Mariner Investment Group, LLC

Overview of Mariner Investment Group, LLC

- Founded in 1992
  - Orix USA purchased a non-controlling majority ownership stake (59.2%) effective December 16, 2010
- Extensive Wall Street proprietary trading and risk management expertise
- Deep fixed income and credit experience
- $10.7 billion in assets under management
- Mariner operates as a platform for various “boutiques”
  - Galton Capital Group is the residential mortgage-backed group trading within Mariner Registered Investment Advisor
- Clients are approximately 90%+ institutional and include public and corporate pensions, endowments/foundations, hospital operating pools, family offices, and fund of funds
- Based in Harrison, NY with additional offices in New York City, Boston, Tokyo, London, Seoul, Philadelphia and Rowayton, CT
- Mariner employs 195 professionals as of April 30, 2013

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Mariner Investment Group, LLC

Mariner/Galton Investment Philosophy

- Seek strong absolute, risk-adjusted net returns
- Seek to implement strategies benefitting from ongoing repair and transition in mortgage markets as assets transfer from regulated to unregulated investors, securitization restarts and Fannie/Freddie are reformed
- Seek to manage risk through detailed fundamental analysis, transactional due diligence including loan level and counterparty reviews, and by mitigating prepay risk by combining interest-only and principal-only investments
- Specialized mortgage portfolio managers that have deep investing and operating experience

Mariner/Galton Investment Team

- 4 senior investment professionals have approximately 90 years of collective experience
- 16 investment professionals led by co-portfolio managers, Matt Whalen and Kevin Finnerty are fully supported by Mariner infrastructure
- Deep residential real estate market experience from originations and servicing through structuring including legal documentation, trading and managing both securitized and loan related assets

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Mariner Investment Group, LLC

Value Proposition

- Strong portfolio management team with the operating expertise necessary to generate, source, manage and evaluate opportunities in the current post-bust mortgage market
- Experience in operating, management and investing of mortgage related assets spans loans, servicing rights, securitization related efforts, and securities in both agency and non agency mortgage products
- Comprehensive risk management focused on loan level analytics and due diligence at acquisition combined with ongoing servicer and loan performance review following the purchase of assets
- Utilize in-house developed technology for fundamental analysis focusing on loan level performance information to develop proprietary models
- Focused
  - Portfolio management team focused on managing portfolio with compliance, legal and other operational support provided by Mariner
  - No outside focus on CDOs, CLOs, CMBS or other structured credit

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Mariner Investment Group, LLC

Performance

- Mariner/Galton Non-Agency RMBS Portfolio, net of fees
  - Funded April 2010 with transfer of assets from terminated TCW portfolio
  - Market value estimated as of June 30, 2013: $266 million
  - Cumulative net performance estimated through June 30, 2013
    - Portfolio: 42.75% vs. Benchmark (Barclays High Yield): 35.81%
- Mariner/Galton Short Duration Non-Agency RMBS Portfolio II, net of fees
  - Committed June 2011 from PSERS LIBOR-Plus portfolio
  - Successfully wound down as of January 2013
  - Cumulative net performance from inception through completion
    - Portfolio: 10.33% vs. Benchmark (3-month LIBOR): 1.05%

History with PSERS

- This would be the third portfolio with Mariner/Galton
  - $350 million non-agency RMBS portfolio
  - $300 million commitment to short duration, high quality RMBS portfolio

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Mariner Investment Group, LLC

Objective

- Provide capital to invest in mortgage servicing rights and new mortgage credit in a variety of ways as the housing and mortgage markets transition
- The fund will invest in mortgage servicing rights and new issue mortgage credit subordinates to create a portfolio that seeks to generate attractive risk adjusted returns while being partially hedged to interest rate changes
- Evaluate all visible supply in an attempt to maximize results while focusing on loan acquisition strategies that provide additional return opportunities
- Investing in a longer lock commingled fund may provide a more attractive platform to take advantage of market illiquidity while having the structure to allow for opportunistic acquisition, securitization and management of these assets

Portfolio Use

- Staff intends to harvest gains from the existing Mariner/Galton mandate as yields continue to compress in this strategy and redeploy the capital into this new strategy at higher expected yields

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Mariner Investment Group, LLC

Other

- Relationships with Aksia: None
- Placement Agent(s): None
- Political Contributions in PA: None
- Introduction Source: Existing Relationship

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Mariner Investment Group, LLC

Recommendation

- Staff, together with Aksia LLC, recommends that the Board invest $150 million plus reasonable normal investment expenses in the Galton Mortgage Recovery Fund III, L.P.

High Yield Portfolio

Mariner Investment Group, LLC
(Galton Capital Group)

August 7, 2013

Mark E. Heppenstall, CFA
Managing Director of Fixed Income

Joseph W. Sheva, CPA
Portfolio Manager

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Aksia

Manager Recommendation Memo

July 18th, 2013

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

Re: Galton Onshore Mortgage Recovery Fund III, L.P.

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and herewith recommends a direct allocation to the Galton Onshore Mortgage Recovery Fund III, L.P. ("Galton") in line with Exhibit D of PSERS Investment Policy Statement, Objectives, and Guidelines.

Galton, in its Mortgage Recovery Fund, is capitalizing on two of the most attractive opportunities in the U.S. residential mortgage market and has a team with substantial operating experience in mortgage banking and servicing to execute its strategy. Galton will invest in mortgage servicing rights (MSRs) and new issue subordinate credit. By creating a portfolio of MSRs, which benefit from low prepayments, and subordinate credits, which benefit from high prepayments, Galton believes it can create a return profile that is balanced across economic scenarios.

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

- Due diligence of Galton's investment strategy, including a review of their investment strategy, investment team and structure, and risk management process.
- Due diligence of Galton's operations, including an operations and infrastructure review, regulatory and compliance review, PPM & LPA review, and Form ADV review.
- Evaluation of Galton's investment strategy within the context of the current investment environment.
- Appropriateness of Galton for the Absolute Return component of PSERS' portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in Galton, 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 Galton. 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 D. Ruehl

Bruce Ruehl
Partner, Head of Portfolio Advisory, Americas

Patrick Adelsbach
Partner, Head of Event Driven Strategies

MARINER GALTON

Galton Mortgage Recovery Fund III

Presentation to:

Pennsylvania Public School Employees' Retirement System

August 7, 2013

330 Madison Avenue, 36th Floor • New York, NY 10282
Phone: (212) 907 8566 • Fax: (212) 907 8586 • email: acarlson@marinergcg.com

GALTON TEAM: STRATEGY & PRODUCT OVERVIEW

Galton has $1Bn+ in capital commitments and $500mm+ invested across legacy and new issue residential mortgage markets to identify relative value given liquidity and attempt to provide risk management and asset sourcing advantage.[1]

lower — EXPECTED UNLEVERED RETURN[2] — higher

HEDGE FUND: "Galton Mortgage Strategies Fund"

Agency TBA & Specified Pools	Agency CMOs & Derivatives	Legacy Non-Agency RMBS New Issue Agency & Non-Agency Credit ABX / Prime X & Other Synthetics	REO-to-Rental	Whole Loans	Mortgage Servicing Rights ("MSRs")	Originator

CLOSED-END FUND: "Galton Mortgage Recovery Fund"

higher — EXPECTED LIQUIDITY[2] — lower

Galton Mortgage Strategies Fund ("GMSF") :

Residential mortgage securities multi-strategy fund
- Evergreen Hedge Fund
- 1 year lock / Quarterly redemption
- Launched October 2009

Galton Mortgage Recovery Fund III ("Galton-III") :

Residential mortgage asset multi-strategy fund
- Opportunity Specific Fund
- 5-8yr closed-end vehicle
- Expected Launch 3Q-2013

PSERS Managed Account II

High quality, short duration legacy RMBS portfolio
- <1yr target duration
- L+200bps return target
- Funded May 2011/ concluded Jan 2013

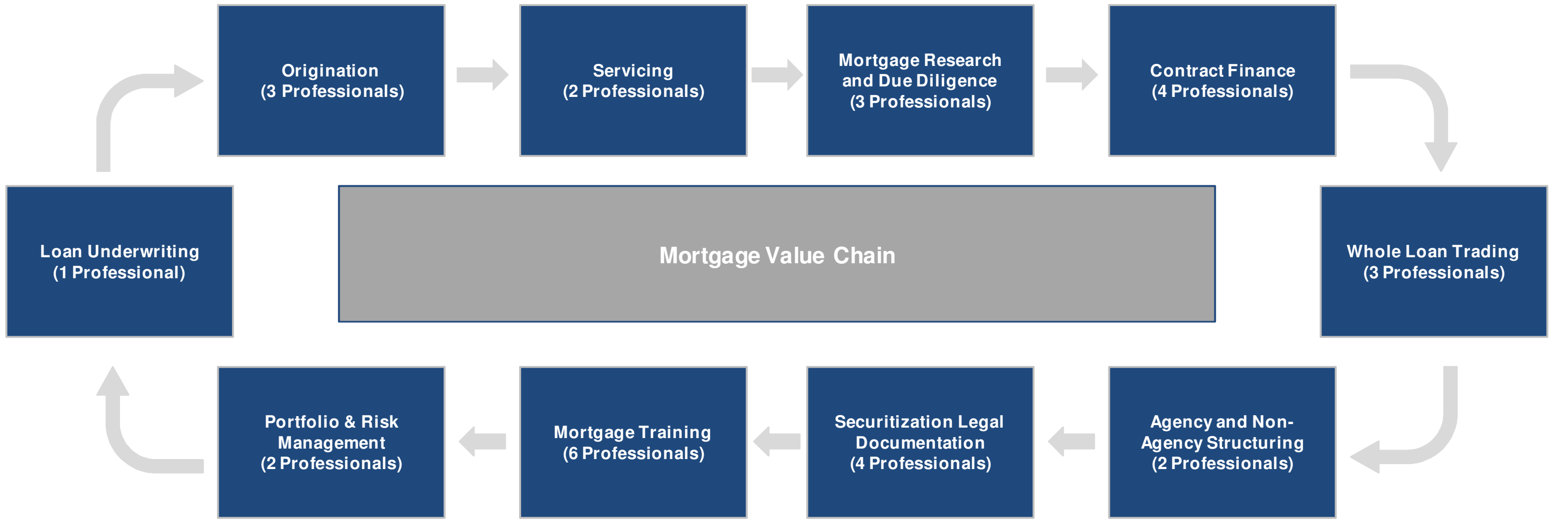
PSERS Managed Account I

High yield, long only legacy RMBS portfolio
- Opportunistic distressed investing
- 7.5% return hurdle
- Funded April 2010

1. AUM figures are estimated and unaudited. Unless otherwise noted, committed capital equals AUM plus available undrawn capital.
2. Expected unlevered return and expected liquidity are meant to be generally representative of the proposed investments. Overlap and order reversal are highly likely given the heterogeneity of the assets.

The team's experience, combined with proprietary market and loan-level analytics, allows Galton to take advantage of mortgage-related opportunities as banks and other traditional players reduce exposure, the housing market recovers and markets reform

- The team experience spans from origination and servicing through structuring, trading and hedging of securities, performing and non-performing whole loans including REOs, as well as oversight and sale of MSRs.



Key Team Bios			
Matt Whalen (20yrs)	Head of Mortgage Banking & Warehouse Finance – ML Capital Markets Managing Director – Chase Mortgage	**Kevin Finnerty (28yrs)**	Head of RMBS Sales & Trading - Bear Stearns, UBS and JPM
Paul Park (25yrs)	Head of RMBS Structuring – JPM, ML	**Steve Molitor (23yrs)**	Managing Partner of the RMBS Legal Practice - Dechert LLP
Non-Agency (15yrs)	Structuring, Hedging & Whole Loan Trading – JPM , ML Mortgage Origination Capital Markets – Chase Mortgage	**Origination (25yrs)**	Capital Markets, Originations, and Servicing – Chase Mortgage
Agency (25yrs)	Head of Mortgage Trading – Dwight Asset Management Portfolio Manager – Fannie Mae	**Servicing (26yrs)**	Head of Servicing Default Risk Mgmt – Chase Mortgage

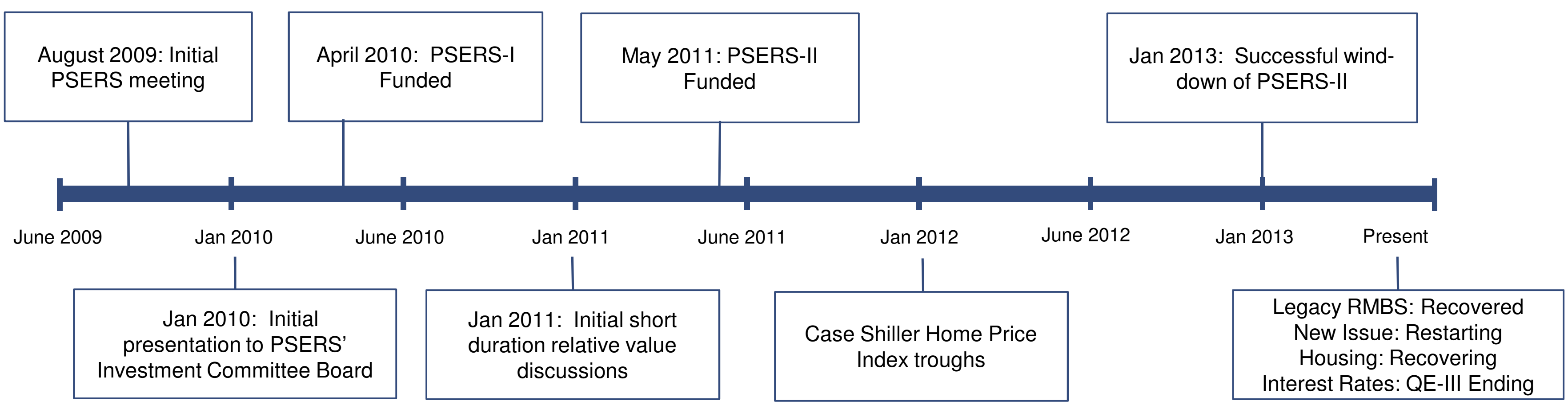
1. The Galton team currently has 13 full time professionals and 4 consultants. Some professionals are double counted in multiple functional areas.

GALTON/PSERS RELATIONSHIP

Galton and PSERS have a long standing relationship that has been built over the past four years and is an important strategic partnership across Galton's business

- Multiple investment mandates tailored to unique investment opportunities and PSERS' objectives
- Open and active dialogue about market activity and investing trends across the US residential mortgage market including mortgage securities, whole loan investing, mortgage servicing rights, REO-to-rental and operationally intensive strategies.
- Discussion of strategic opportunities such as an origination operating business located in Pennsylvania
- Mortgage and housing markets are in the middle of repairing with new capital rules and regulations. Mortgage and home price related investments will transition from traditional holders (Banks/FNMA /FHLMC) to new forms of investors.
- As the distressed RMBS opportunity is harvested we recommend transitioning from the existing mandate into the next stage of market repair and reformation supported by a recovering and very affordable housing market characterized by limited home supply

Timeline of Galton/PSERS Relationship



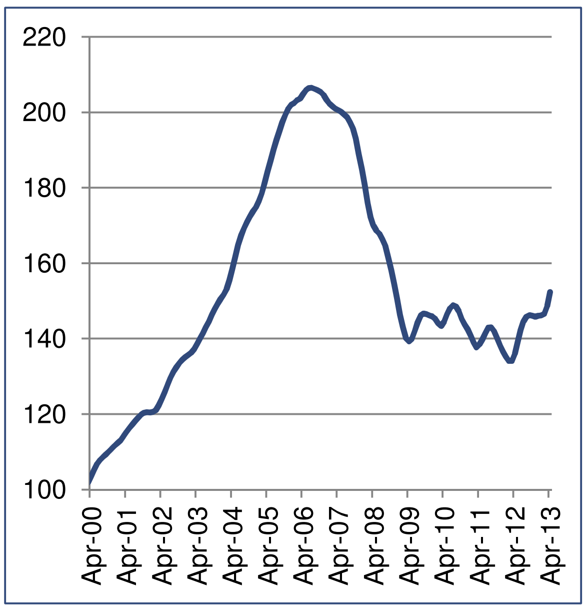
U.S. Residential Housing Market

U.S. housing market appears to have bottomed with upside potential until the point where home affordability normalizes at lower levels of demand.

- Low levels of home sale listings and new home supply are currently offset by high vacancies and distressed inventory.

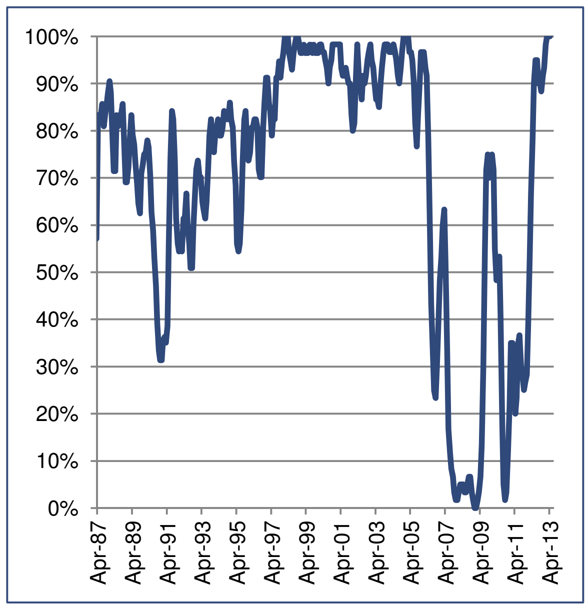
S&P/Case Shiller 20-City Composite Index[1]

- Dramatic bubble in national home prices leading up to the housing bust
- Peaked 3Q-2006 and troughed 1Q-2012
- 1Q-2012 trough is driving market sentiment
- Historically, if home prices increase mortgage performance is also strong[2]



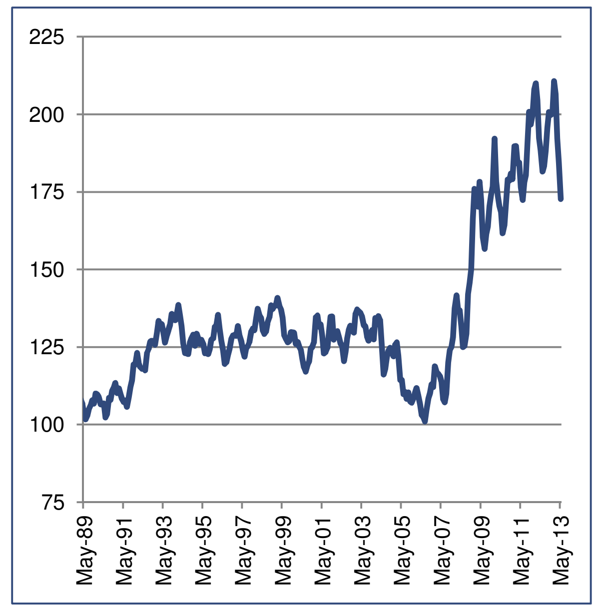
% of Geographies Appreciating (3 month MAvg)[1]

- Housing appreciated nationally since WWII
- 1996-2006 period, driven by low rates and credit expansion, was unsustainable
- Expect post-bust performance to normalize with housing driven by rates and incomes



Home Affordability[1]

- Pre 1996, consistent affordability
- Bubble created from 1996 - 2006
- Affordability is currently at all-time highs
- Rates can increase with affordability still remaining at attractive levels



1. Source: Bloomberg data and Galton analysis
2. Past performance is not a guide to or otherwise indicative of future results.

PSERS-II PORTFOLIO

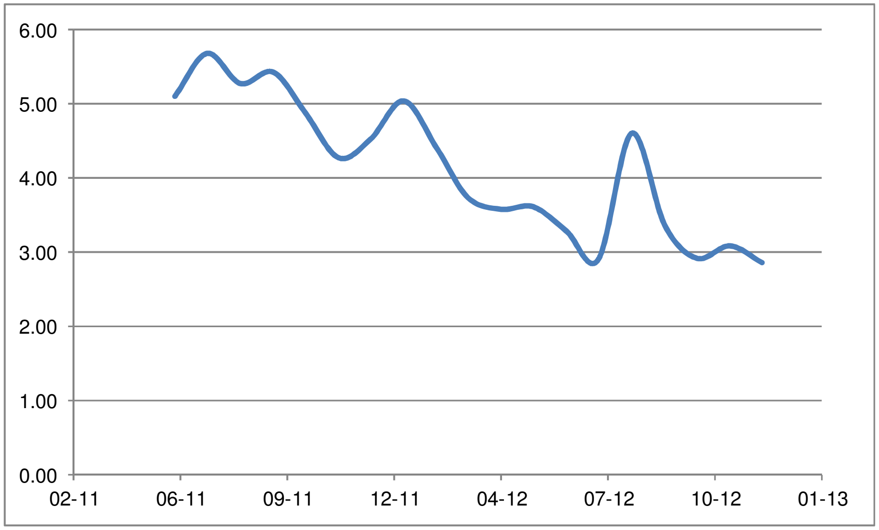
SHORT DURATION "MONEY GOOD" LONG-ONLY PORTFOLIO

Description/Strategy: PSERS-II was a liquid, long-only mandate designed to take advantage of opportunities in legacy RMBS to purchase high quality, short duration bonds where we expected no bond writedowns at yields substantially above similar zero expected loss fixed income alternatives.

Outcome: The strategy generated returns in excess of the targets and given the substantial rally in "Money Good" RMBS Galton recommended winding down the portfolio

- Portfolio successfully concluded in Jan 2013
- Achieved annualized net return of over 6% compared to target of LIBOR plus 2.0%
- Cumulative net return since inception[2]: 10.33%
- In our opinion, the relative value of "Money Good" RMBS vs. other asset classes has diminished
- Opportunities will exist in both legacy and new issue markets and this provides an example of different ways to play the RMBS market across the liquidity and risk spectrum
- Given mortgage market transition, an ongoing partnership is critical to identify, select, and exit market opportunities

Base Case Model Yield to Maturity for PSERS-II Portfolio[1]



Net Monthly Return of PSERS-II Portfolio[2]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011						(0.24)%	(0.12)%	(0.31)%	(0.06)%	0.46 %	0.17 %	0.07 %	(0.04)%
2012	(0.77)%	0.98 %	0.37 %	0.31 %	0.63 %	0.60 %	0.69 %	3.07 %	1.25 %	0.04 %	0.06 %	0.59 %	8.04 %
2013	2.15 %												2.15 %

1. Base Case represents the output produced by the manager's highest conviction and core set of assumptions as of the end of the prior month including, but not limited to, prepayment speeds, delinquency levels, loss severity, modification, servicing advances, level of interest rates, counterparty risk, and other performance drivers. Galton tests and stresses the Base Case output by altering model drivers and assumptions in Galton's 300+ proprietary Scenarios ("Scenarios") to create a profile of Risk-Adjusted Yield, Expected Principal Loss, and Modified Duration.
2. Past performance is not a guide to or otherwise indicative of future results. All returns stated above are net of fees and expenses and reflect the reinvestment of dividends and other earnings for the relevant period and are unaudited. YTD is cumulative.

PSERS-I Portfolio

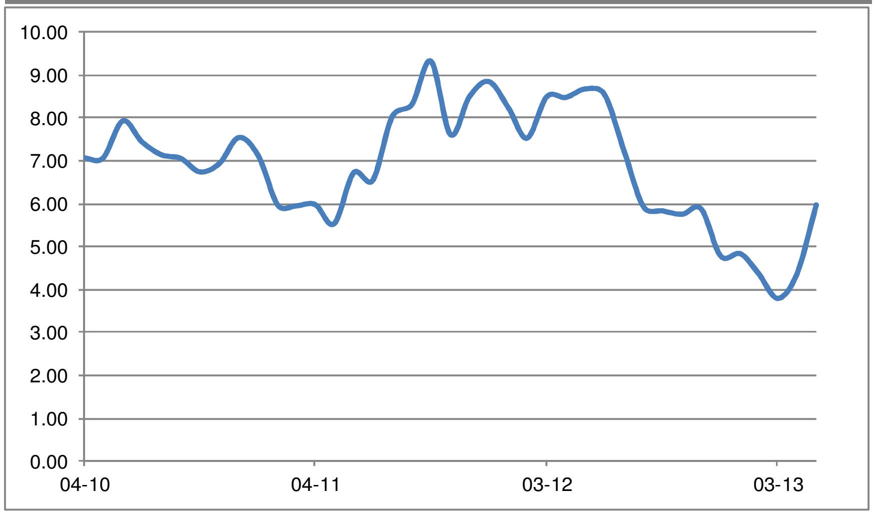
OPPORTUNISTIC HIGH YIELD LONG-ONLY PORTFOLIO

Description/Strategy: PSERS-I is designed to take advantage of the distressed investing environment in the Legacy RMBS market following the mortgage bust. The portfolio looks to achieve attractive risk adjusted returns without the use of leverage by investing across Legacy RMBS.

Outlook: Following the January 2012 trough in national home prices, this legacy asset is moving from a distressed asset to more of a lower yield relative value product[1]

- "Distressed investing" period nearing an end but account still has relative value that may provide further upside
- Price stability is increasing as downside tail and housing risk decreases and ability to trade and lever increases
- Account provides direct beta to housing recovery
- Galton expects this fund to have satisfied its distressed mandate during 2013 with need to transition
- Galton-III provides a means to invest in origination and securitization recovery funded by this account
- Net annualized return since inception[3]: 11.45%
  Cumulative net return since inception[3]: 40.94%

Base Case Model Yield to Maturity for PSERS-I Portfolio[2]



Net Monthly Return of PSERS-I Portfolio[3]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010					0.52 %	1.03 %	0.51 %	2.07 %	0.90 %	1.31 %	0.03 %	0.52 %	**7.09 %**
2011	1.31 %	0.81 %	0.07 %	0.47 %	0.40 %	(0.48)%	0.83 %	(2.03)%	0.25 %	0.52 %	(0.35)%	0.57 %	**2.38 %**
2012	1.69 %	1.90 %	1.34 %	0.74 %	1.46 %	0.96 %	1.83 %	2.21 %	3.54 %	0.87 %	1.61 %	1.46 %	**21.43 %**
2013	3.45 %	0.29 %	0.86 %	2.46 %	1.48 %	E (2.71)%							**5.86%**

1. The Outlook is prospective and reflects the team's opinion at the time of this report. There is no guarantee they will be successful in efforts to implement strategies that seek to take advantage of such perceived opportunities.
2. Base Case represents the output produced by the manager's highest conviction and core set of assumptions as of the end of the prior month including, but not limited to, prepayment speeds, delinquency levels, loss severity, modification, servicing advances, level of interest rates, counterparty risk, and other performance drivers. Galton tests and stresses the Base Case output by altering model drivers and assumptions in Galton's 300+ proprietary Scenarios ("Scenarios") to create a profile of Risk-Adjusted Yield, Expected Principal Loss, and Modified Duration.
3. Past performance is not a guide to or otherwise indicative of future results. All returns stated above are net of fees and expenses and reflect the reinvestment of dividends and other earnings for the relevant period and are unaudited. The letter "E" denotes estimated returns. 2013 YTD is cumulative.

MARKET OPPORTUNITY SET[1]

OPPORTUNITY SET : KEY DRIVERS

Bank retrenchment and FNMA/FHLMC reform are forcing new capital to fill a void being created in the mortgage market

Transition of Mortgage Assets & Operational Capacity from Regulated Entities:

- Increased operational, regulatory, legacy liability & capital pressures are impacting banks' participation and commitment across the mortgage industry
  - Traditional participants are decreasing exposure to legacy assets including Mortgage Servicing Rights (MSRs)
  - Changes negatively impact regulated participants' ability and willingness to invest in new issue assets including MSRs and mortgage credit

Regulators are mandating FNMA/FHLMC reform, requiring risk transfer and supporting the restart of private label securitization[2]:

- FNMA and FHLMC's regulator, FHFA, has mandated them to sell credit risk from recently originated agency mortgages
- FNMA/FHLMC have and are continuing to increase their charge for guaranteeing credit (G-Fees). Once these costs align with what the private market would charge, the FHFA expects private investors and originators to retain or securitize this credit risk vs. delivering the loans to FNMA or FHLMC.
- FHFA is seeking increased involvement of private capital throughout the mortgage markets to bring the government sponsored market share from 90+% currently to it's longer term average of approximately 40-50% or lower.
- Galton has an active dialogue with both FNMA and FHLMC as well as the FHFA

	New Issue Assets	Legacy Assets
Primary Performance Drivers	▪ Mortgage capital markets repairing ▪ Restart of securitization market ▪ FNMA/FHLMC reform	▪ Stable and strong carry in base line ▪ Direct upside beta to US Housing market => HPA
Primary Asset Types	▪ New Issue Mortgage Credit ▪ Mortgage Servicing Rights	▪ REO property investment (REO to Rental) ▪ Non-performing loans

1. The market opportunity set is prospective and reflects the Galton team's opinion at the time of this report and there is no guarantee we will be successful in our efforts to implement strategies that seek to take advantage of such perceived opportunities. Nothing stated herein should be construed as a guarantee against fund losses
2. Source: various comments and reports from the regulators including, FHFA Compensation Scorecard, FHFA Strategic Plan, Federal Reserve White Paper as well as multiple speeches and public statements

FUND OVERVIEW[1]

GALTON MORTGAGE RECOVERY FUND (GALTON-III)

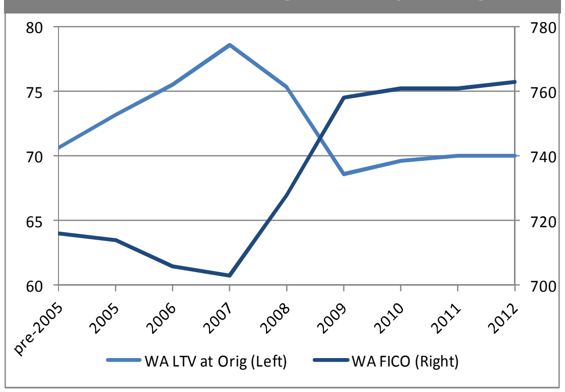
Galton-III will invest in Mortgage Servicing Rights (MSRs) and New Issue Credit Subordinates creating a combined Interest Only (IO) and Principal Only (PO) portfolio that is positioned to take advantage of the current unique state of the mortgage market

- The combination of New Issue Credit & MSR investments creates a partially hedged IO/PO portfolio that may benefit from a rise in Agency mortgage rates and risk premium (G fees) while also benefitting from the compression of risk premiums and better credit availability in non-agency mortgages
  - Rising G-fees should help lead to higher Agency mortgage rates resulting in slower prepayment speeds which tends to benefit mortgage IOs
  - High Non-Agency securitization profitability should drive originators to expand Non-Agency underwriting guidelines and reduce Non-Agency risk premiums over time helping lead to lower Non Agency mortgage rates resulting in faster prepayment speeds which tends to benefit mortgage POs

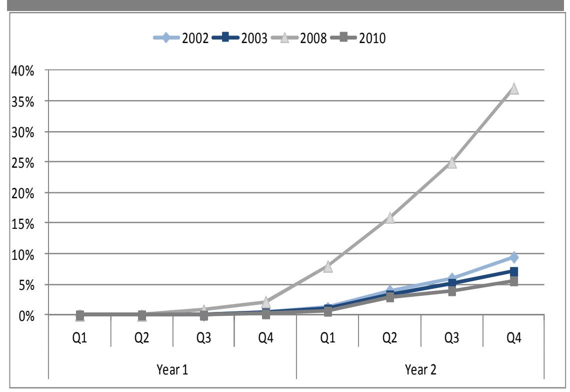
Tighter underwriting standards of post-bust originations (ex: high FICO and low LTV) generates strong credit performance benefitting mortgage credit investments, the restart of the non-agency mortgage market and will support credit expansion

- Early performance of post-bust collateral is trending better than the clean 2002 and 2003 vintages as seen below in Agency cumulative defaults which is very supportive for the performance of credit sensitive subordinates
- Better credit performance means lower involuntary (loss related) speeds which combined with the potential for higher underlying refinance rates this profile tends to be supportive for mortgage IO risk (MSRs)
- New securitizations reflect much higher credit enhancement requirements which we believe will decline over time. The new credit enhancement levels materially exceed the losses experienced for similar original balance loans from the poorly performing 2007 vintage[2]

LTV and FICO at Origination by Vintage[3]



Cumulative Defaults by Vintage[3]



1. The Fund Overview is prospective and reflects the Galton team's opinion at the time of this report and there is no guarantee we will be successful in our efforts to implement strategies that seek to take advantage of such perceived opportunities.
2. Source: Loan performance data and Galton analysis
3. Source: based on FNMA performance sourced from FNMA and FHFA filings

FUND OVERVIEW

STRATEGY HIGHLIGHTS

	Mortgage Servicing Rights (Interest-Only Profile)	New Issue Securitization (Principal-Only Profile)
Strategy	▪ Acquire MSRs via flow arrangements, including loan purchase, or through negoetiated trades ▪ Acquire new & legacy MSRs via bulk bid-in-competition situations	▪ Create mortgage credit assets by acquiring loans in a whole loan conduit and issuing a securitization ▪ Acquire non-investment grade/unrated/equity subordinates off of newly issued Agency and non-Agency securitizations (new or legacy vintage collateral)
Key Differentiators	▪ Sourcing advantage via origination team network ▪ Servicer selection, analysis, and monitoring expertise ▪ Contract negotiation and enforcement expertise ▪ Agency relationships	▪ Loan origination and underwriting expertise ▪ Structuring and securitization expertise ▪ Rating agency and capital markets expertise ▪ Agency relationships
Market Status	Active – Legacy and New Issue MSRs	Developing
Preferred Strategy	New Issue Agency MSRs	Non-Agency Conduit Origination/Securitization
Observed Yield[1]	Unlevered mid teens	Levered mid-teens with potential gain-on-sale upside[2]
Core Performance Driver	Prepayment speeds driven by mortgage rates	Credit Performance
Liquidity	Low	Low (Non-Investment Grade) and High (Investment Grade)
Holding Period	5 – 8 years subject to deal-level clean up calls	Subject to Dodd-Frank risk-retention rules and securitization requirements

1. These are Base Case estimates, which are based on a variety of assumptions and observations which may or may not be applicable to future investment opportunities. Such estimates do not include various assumptions, including assumptions related to home price appreciation. The yields shown are based on Galton's observations of recent market transactions and numerous Galton assumptions across scenarios based on MSR and new issue credit investments. Such observations and assumptions are subject to change. No representation is made that these or any other returns will be achieved with respect to any actual investment or will actually be available in the market.
2. Gain-on-sale upside is specifically related to securitizations that may be created by the Fund versus those that may be purchased by the Fund. Potential gain-on-sale profits are excluded from the Base Case.

Competitive Advantage: Sourcing & Operational Capabilities

The Galton team's senior management operational capabilities provide a competitive advantage in sourcing and executing MSR and New Issue Securitization strategies, which are origination, underwriting and operationally intensive

- **MSRs:** The Galton team's extensive origination and servicing network from Chase Mortgage will provide a sourcing and deal execution advantage
  - Galton's Head of Origination Strategies initiated JPM Chase's flow subprime MSR purchase program in 2004, participated in ~$20B of related MSR purchase transactions during his tenure, and identified/sold $11B of MSRs for JPM Chase ($7B to Ocwen Financial/ $4B to Homeward) in 2012
  - During his tenure at JPM Chase as Head of Default Strategies, Galton's Head of Servicing Strategies performed servicer reviews and oversaw compliance with Servicing Agreements (PSAs) in addition to overseeing default activities of Chase servicing business including vendor review

- **New Issue Securitization:** The team has extensive whole loan and securitization experience including the establishment of whole loan conduits and loan level underwriting including due diligence, property and asset valuation, traditional servicing, default management and third-party vendor selection and oversight
  - Numerous members of Galton's team participated in the initiation and execution of Chase and Merrill Lynch's prime and non-prime whole loan acquisition, conduit and securitization programs over a 15 year period

Underwriting & Valuation Experience

Servicing Oversight Experience

Mortgage Servicing Rights (MSR)

New Issue Whole Loans & Securitization

Matt Whalen – Galton Principal
- Co Head of Merrill Lynch whole loan and third party mortgage originations
- Head of JPM Home Equity Banking
- Ran Capital Markets for deNovo Chase Funding originator at Chase Mortgage

Head of Origination Strategies
- Managed rollout of deNovo Chase Funding originator at Chase Mortgage
- Established whole loan conduits and securitization programs at Chase
- Managed WaMu's whole loan conduit

Head of Credit Policy and Due Diligence
- Head of Operations for Merrill Lynch SURF whole loan conduit
- Underwriting manager for RFC RASC whole loan program

Head of Servicing Strategies
- Defaulted loan servicing and risk manager for Chase including primary decision maker for asset liquidation and retention strategies.
- Managed all aspects of loss mitigation, foreclosure & REO processes
- Managed 3rd party servicers and vendors at Chase

Head of Origination Strategies
- Capital Markets Manager for Chase responsible for servicing activities including sale non-performing loan sales, servicing rights sales and servicer evaluations
- Responsible for identification and management of third party servicers
- Participated in negotiations with US Treasury and regulators including settlements and HAMP efforts

OPPORTUNISTIC TRANSITION[1]

TRANSITION FROM DISTRESSED RMBS TO NEXT PHASE OF THE OPPORTUNITY

Transitioning from the high yield distressed RMBS strategy of PSERS-I into the more operationally intense strategy of Galton-III, would provide an efficient means of taking advantage of the next industry-wide opportunity[2]

- Strategically allocating from the existing PSERS-I account allows the ability to continue to take advantage of the upside that may remain in Legacy RMBS as this market continues to transition while internally funding the investment in the new fund
- Harvesting gains and investing in Galton-III re-positions the mandate for the next phase of the opportunity set in the post-bust mortgage environment
- MSR and gain on sale activities in Galton-III are expected to provide monthly income or positive carry

MSR and New Issue Credit represents an attractive opportunity to take advantage of the next stage in the mortgage market recovery for investors with the necessary operational expertise, infrastructure and investment vehicle

- Longer-term and illiquid opportunity:
  - 2-3 year investing window for MSR assets which will transition longer term into the need to buy and originate loans to generate assets as the securitization markets fully restart
  - MSR and New Issue Credit are illiquid assets where investors need to be prepared to hold for an extended period
    - MSR: non-securitized and operational requirements currently limit the ability to trade
    - New Issue Credit: the market's approach on first loss investing limits ability to trade while pending regulation and securitization considerations may require longer term risk retention
  - Longer lock vehicle allows the possibility to engage in conduit origination potentially generating a meaningful sourcing advantage and additional income from "gain-on-sale" resulting from loan acquisition and sale activities

1. Please refer to the PPM for additional details regarding the strategy and fund terms.
2. The Opportunistic Transition is prospective and reflects the Galton team's opinion at the time of this report and there is no guarantee we will be successful in our efforts to implement strategies that seek to take advantage of such perceived opportunities. Nothing stated herein should be construed as a guarantee against fund losses.

GALTON-III SUMMARY TERMS AND CONDITIONS[1]

The Fund:	Galton Mortgage Recovery Fund III ("Galton-III")
Investment Manager:	Mariner Investment Group, LLC
General Partner:	Galton Capital Group, LLC
Target Fund Size:	$600MM
Initial / Final Closing	Initial Closing expected 2H-2013; Final Closing will be earlier of (1) the last day of the month in which 50% of committed capital has been drawn or (2) one year from Initial Closing
Fund Term:	Five years from the Initial Closing with the potential for [three] one-year extensions – **Investment Period:** The [36]-month period immediately following the first day of the month in which the Initial Closing occurs. During this period, Fund capital may be drawn and invested, and Distribution Amounts may be reinvested. – **Distribution Period:** Commences upon the termination of the Investment Period and continues for [24] months subject to [three] possible one-year extensions. During this period and on a quarterly basis, all cash balances less minimum cash requirements will be distributed subject to the Distribution Priority below. The General Partner may elect to begin distributions prior to the expiration of the Investment Period. – **Possible Early Termination:** Notwithstanding the stated Fund term described above, the Fund may be liquidated sooner and dissolved at the election of the General Partner if at any time the net asset value of the remaining assets of the Fund equals less than 25% of the aggregate capital commitments of the Fund as of the Final Closing. In such event, the General Partner, the Fund Manager, and/or their respective affiliates, together with each limited partner, will be invited to bid on such remaining assets on normal commercial terms and as part of a standard bid process.
Management Fee:	During the Term of the Fund, the Fund Manager will receive an annual management fee (the "Management Fee") calculated as follows. During the period prior to the date on which the Fund has drawn at least $200 million of capital, the Management Fee will be equal to the greater of (i) 0.25% of the aggregate Capital Commitment of each Limited Partner and (ii) 1.75% of the amounts described in clauses (i) and (ii) in the next succeeding sentence. Following the date on which the Fund has drawn at least $200 million capital, the Management Fee will be equal to 1.75% of: (i) during the Investment Period, the aggregate capital contributions made by each Limited Partner; and (ii) during the Distribution Period, the aggregate amount of capital contributions made by each Limited Partner, reduced by (x) realized losses, (y) distributions constituting a return of capital (based on the original cost of investments) as increased to reflect the pro rata portion of such capital contributions used to pay the Management Fee and other fund expenses, including, without limitation, organizational expenses), and (z) any write downs or write offs ("Net Invested Capital"). The Management Fee will be payable monthly in advance based upon the capital contributions, Capital Commitments or Net Invested Capital, as applicable, as of the first day of each month. The General Partner, in consultation with the Fund Manager, reserves the right to treat any Capital Commitment or capital contribution, as applicable, made on any day after the first day of the month as having been made as of the first day of the following month such that, if such election is made, the Management Fee and the Carried Interest (as defined below) will be calculated beginning as of the first day of the following month. The Management Fee may be reduced by certain organizational expenses as described in more detail in the PPM.
Distribution Amount:	Monthly cash flow received on underlying assets including principal and interest distributions, hedging, margin accounts, and asset sales.
Distribution Priority:	Funds available for distribution will be paid in the following priority: (i) to the Limited Partners, all drawn Limited Partner Commitments; (ii) 8% per annum preferred return to Limited Partners on all drawn Limited Partner Commitments (the "LP Preferred Return"); (iii) a "catch-up" to the General Partner as a carried interest generally equal to 20% of the quotient derived from dividing the aggregate LP Preferred Return by 80%; and (iv) 80% to the Limited Partners and 20% to the General Partner as a carried interest.

1. Please refer to the PPM for additional details regarding the strategy and fund terms.

KEY BIOGRAPHIES

GALTON TEAM – PRINCIPALS

Kevin J. Finnerty (28 years)
Mr. Finnerty is a Mariner employee and a partner and co-founder of Galton. Mr. Finnerty serves as co-Portfolio Manager for the Galton commingled vehicles and managed accounts. Mr. Finnerty joined Mariner in 2005 and formerly was a founding principal of Mariner FI Capital Group, LLC, a trading team within Mariner that provided day to day portfolio management services to an Agency mortgage related hedge fund (which is no longer in operation). Prior to joining Mariner in 2005 he was a Managing Director at JP Morgan Chase running the Mortgage Securities Department since 1999 and was also Co Chair of their North American People Committee. The mortgage department comprised approximately 80 people at JPM and was a consistently profitable enterprise for the firm. Mr. Finnerty worked at Bear Stearns from 1986 - 1996 where he was a Senior Managing Director holding numerous positions, but ultimately headed the Mortgage Securities Department and was a member of their Board of Directors. Mr. Finnerty also ran the Mortgage Securities Department at UBS from 1996 - 1998. Mr. Finnerty was Chairman of the Mortgage and Asset Backed Division of the Bond Market Association in 2003, currently serves as a Director of Newcastle Investment Corp., a publicly traded REIT, and is a member of the Board of Trustees for Loyola University Maryland. Mr. Finnerty graduated from St. John's University with a B.S. in Communication Arts and a minor in Economics. Mr. Finnerty has been married for 32 years and has 5 children.

Matthew Whalen, CFA (20 years)
Mr. Whalen is a Mariner employee and a partner and co-founder of Galton. Mr. Whalen serves as co-Portfolio Manager for the Galton commingled vehicles and managed accounts. Prior to joining Mariner, Mr. Whalen was a Managing Director and Co-Head of Merrill Lynch's Non Conforming Mortgage Businesses. After joining Merrill Lynch in 2002, he helped in successfully re-launching their whole loan and third party mortgage originations businesses with in excess of $100 billion issued during his tenure. Prior to Merrill, Mr. Whalen ran Home Equity Banking at JPMorgan Securities where he worked from 2000 through 2002. Mr. Whalen was a Senior Vice President at Chase Manhattan Mortgage where he worked from 1993 through 2000. During this time, he was one of the senior managers who helped launch Chase Funding, a subprime lender, in 1995 with his primary responsibilities including Capital Markets activities for Chase Funding. These activities included the CFAB and CFLAT securitization programs, pricing, servicing oversight, whole loan trading, and hedging. Prior to Chase, Mr. Whalen worked at Bridgestone Tire and Rubber after receiving an M.B.A. and a B.S. in Applied Math and English Literature from University of Pittsburgh.

Paul Park (23 years)
Mr. Park is a Mariner employee and a partner and co-founder of Galton. Mr. Park serves as the Head of Research and Structuring for the Galton commingled vehicles and managed accounts. Prior to joining Mariner, Mr. Park was a Managing Director and Head of Merrill Lynch's Non-Agency Mortgage Structuring Dept. After joining Merrill in 2002, he was responsible for the modeling of Non-Agency whole loans and securitization and the establishment of the Structuring Department. Prior to Merrill, Mr. Park ran Home Equity Structuring at JPMorgan Securities from 1999 to 2002. Mr. Park began his career at Lehman Brothers in 1987 in their Agency and Non-Agency Structuring Department where he also held a variety of trading and structuring jobs, including trading agencies CMO derivatives, Non-Agency credit tranches, and non-economic residuals. Prior to Lehman, he worked at AT&T Bell Labs and was an adjunct faculty at Monmouth College, NJ. Mr. Park received an M.S. from Stanford University and a B.S. from UCLA.

Steven J. Molitor (23 years)
Mr. Molitor is a Mariner employee and a partner and Chief Operating Officer of Galton. Prior to joining Mariner, Mr. Molitor was a partner at the law firm Dechert LLP from 2004 to 2010. While at Dechert, Mr. Molitor was the partner in charge of the firm's residential mortgage-backed securities ("RMBS") practice. Prior to joining Dechert, Mr. Molitor was with the law firm Morgan, Lewis & Bockius LLP, first as an associate starting in 1992 and subsequently, from 1995 to 2004, as a partner, ultimately as the partner in charge of the firm's RMBS practice. While at Dechert and Morgan Lewis, Mr. Molitor represented issuers and underwriters in connection with several hundred public offerings of mortgage-backed securities, as well as buyers and sellers in dozens of whole loan transactions each year, and also acted as outside counsel to leading mortgage originators and servicers. Mr. Molitor began his career at the law firm Milbank, Tweed, Hadley & McCloy, where he worked as an associate from 1987 to 1992. Mr. Molitor received a B.A. in Economics and History from Franklin & Marshall College and a J.D. from Cornell Law School.

Important Considerations and Assumptions

General Considerations
The Galton team is an internal trading team inside of Mariner that focuses on mortgage credit assets. All Galton team members are employees of Mariner; all investment advisory services performed by the Galton trading team are provided through Mariner Investment Group LLC (the SEC registered investment adviser); more specifically, Marnier is the investment manager of all product offerings (e.g., hedge fund or managed account) advised by the Galton trading team.

This presentation has been prepared solely for information and discussion purposes and may not be relied on in any manner as legal, tax or investment advice or as an offer to sell or the solicitation of an offer to buy an interest in any Funds which can only be made by a private placement memorandum that contains important information about each Funds' risks, fees and expenses (the "Supplemental Disclosure Documents"). Past performance is not a guide to or otherwise indicative of future results. The U.S. Dollar is the currency used to express performance. This presentation should be considered confidential and may not be reproduced in whole or in part, and may not be circulated or redelivered to any person without the prior written consent of Mariner Investment Group, LLC ("MIG") or its affiliated limited purpose broker-dealer Mariner Group Capital Markets, Inc. ("MGCM"). The Galton Mortgage Recovery Fund III (the "Fund") is advised or otherwise managed by MIG and/or certain of its affiliates (e.g., the General Partner and certain of its partners, officers, directors and employees) and accordingly is under common control with MGCM. MGCM and its registered representatives, who are also employees of MIG, have a financial interest in the distribution of the securities offered for sale by the Fund and all remuneration to MGCM shall be paid by MIG and not the Fund's investors. Strategies in which the Fund invests may involve investments in less liquid securities as well as leverage. Products managed by MIG are intended for sophisticated investors and the information in these materials is intended solely for "Accredited Investors" within the meaning of Rule 501 of Regulation D under the U.S. Securities Act of 1933, as amended and "Qualified Purchasers" within the meaning of Section 2(a)(51) of the Investment Company Act of 1940 (or investors qualifying under equivalent standards under the laws of the jurisdictions of their residence). Any products or service referred to herein may not be suitable for any or all persons.

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This presentation contains only preliminary summary information about the Fund, its sponsor and the investment opportunity presented and is qualified in its entirety and should be read in conjunction with the Supplemental Disclosure Documents. Material aspects of the descriptions contained herein may change at any time. This presentation is being provided to you on a strictly confidential basis at your request and you should read the Supplemental Disclosure Documents carefully, including the risk factors and potential conflicts of interest specifically described in the private placement memorandum before investing in the Funds. Some information in this presentation reflects proprietary research based upon various data sources. In addition, some information cited in this presentation has been taken from third-party sources that are believed to be reliable but which have not been verified for accuracy or completeness. No person has been authorized to make any statement concerning the Funds, Mariner, MGCM, or any of their affiliates, other than as will be set forth in the Supplemental Disclosure Documents, and any such statements, if made, may not be relied upon. In the event of any conflict between the Supplemental Disclosure Documents and the information provided herein, the Supplemental Disclosure Document will control.

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As used herein, "Base Case" generally refers to the output produced using the core assumptions used by the manager in evaluating the specific mortgage pool (which may be hypothetical or actual) under consideration in any specific case.

The Fund has not yet commenced any operations. This presentation is being furnished to you solely for the purpose of giving you a preliminary indication of the terms and structure of the Fund and is not to be used for any other purpose or made available to anyone not directly concerned with your evaluation of the possibility of requesting further information regarding an investment. This presentation is not intended to be complete, and material aspects of the descriptions contained herein may change materially at any time. If the Fund is launched and you express an interest in investing in the Fund, an offer will be made by, and you will be provided with the Supplemental Disclosure Documents, which shall govern in the event of any conflict with the preliminary indicative terms set forth above. As also noted below, you must review the Supplemental Disclosure Documents and risk factors disclosed in the Supplemental Disclosure Documents prior to making a decision to invest. You should rely only on the information contained in the Supplemental Disclosure Documents in making your decision to invest.

None of the information contained herein shall constitute, or be construed as constituting or be deemed to constitute "investment advice" as defined under the U.S. Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, or the U.S. Internal Revenue Code of 1986. If you are subject to ERISA, this presentation is being furnished to you on the condition that it will not form a primary basis for any investment decision. The Fund and securities discussed in these Materials have not been registered or qualified with, nor approved or disapproved by, the U.S. Securities and Exchange Commission, or any other regulatory authority, nor has any regulatory authority passed upon the accuracy or adequacy of any information that has been or will be provided. Notwithstanding anything to the contrary herein, each investor (and each employee, representative, or other agent of such investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of (i) the Funds (ii) any of their transactions, and all materials of any kind (including opinions or other tax analyses) that are provided to the investor relating to such tax treatment and tax structure.

None of the Fund, Mariner, any of their respective affiliates, or any shareholder, member, manager, director, officer, employee, representative or agent of any of the foregoing (each a "Mariner Person") can accept responsibility for the tax treatment of an investment in the Fund or of the Fund's investments. The Fund and each Mariner Person assumes that, before making a commitment to invest, the investor and, where applicable, its beneficial owners have taken whatever tax, legal or other advice the investors/beneficial owners consider necessary and have arranged to account for any tax lawfully due on the income or gains arising from any investment.

Important Considerations and Assumptions

Important Disclosures Concerning Estimated Yields
All indicative estimated yields shown herein are estimated yields only, and are based on numerous assumptions and market data, which may be difficult to predict, vary within a broad range, and be subject to significant fluctuation. The actual yields may shift significantly over a very short period of time. There can be no assurance that actual yields will equal or closely approximate the yields shown. Such yields are highly sensitive to a variety of factors including, but not limited to, prepayment speeds, delinquency levels, loss severity, level of interest rates, servicing efficacy and counterparty risks, with these factors driven in part by the housing market, unemployment levels and general economic conditions, and governmental regulation and intervention. Past performance is not indicative of future results.

Disclosure of Risk Factors
An investment in a hedge fund is speculative and involves a significant degree of risk, which each prospective investor must carefully consider. Returns generated from an investment in a hedge fund may not adequately compensate investors for the business and financial risks assumed. An investor in hedge funds could lose all or a substantial amount of his or her investment. While hedge funds are subject to those market risks common to other types of investments, including market volatility, hedge funds employ certain trading techniques, such as, the use of leverage, and other speculative investment practices that may increase the risk of investment loss. Other risks associated with hedge funds include, but are not limited to, high illiquidity and fees (and the higher fees may offset the fund's trading profits), complex tax structures that may delay the distribution of important tax information, no requirement that periodic pricing or valuation reports be provided to investors, lack of the regulatory requirements applied to mutual funds, limited operating history, lack of a secondary market for an investor's interest in the fund and none may be expected to develop, performance that is volatile, restrictions on transferring interests in the fund, and a hedge fund may effect a substantial portion of its trades in foreign markets or exchanges. In addition, a hedge fund may have a Galton team who has total trading authority over the fund and the use of a single advisor applying generally similar trading programs could mean a lack of diversification, and consequentially, higher risk. In addition, investments in a hedge fund that invests in residential mortgage-related assets involves substantial risks related to macro factors involving the political, regulatory, and economic landscape. Such factors have been, and may continue to be, subject to a high degree of flux and unpredictability, and, therefore, may introduce significant additional risks with respect to mortgage-related investments.

The foregoing is only a summary of certain risks associated with an investment in the Fund. Before making an investment in the Fund, prospective investors are advised to thoroughly and carefully review the Private Placement Memorandum with their financial, legal and tax advisors to determine whether an investment is suitable for them.

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