

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: November 11, 2013

SUBJECT: High Yield Debt Recommendation

TO: Members of the Board

FROM: Joseph W. Sheva, CPA *JWS*
Portfolio Manger

At the December Finance Committee meeting, staff and Portfolio Advisors will recommend that PSERS commit \$150 million to the TPG Opportunities Partners III (A), L.P., managed by TPG Opportunities Partners (TOP).

The Fund will pursue investments in three core special situations: Corporate Distressed-for-Control, Asset Special Situations, such as non-performing loan purchases, and Corporate Dislocations. TOP will have a global mandate and the ability to gravitate to the most attractive geographies over time, along with the ability to migrate to the best risk/reward opportunities within their defined special situations.

TOP was established 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 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 significant investment experience and has generated consistent returns in all phases of the credit cycle.

TOP is deemed to be an institutional quality global investment firm, specifically in the special situations opportunities noted above, areas where staff and Portfolio Advisors believe attractive risk/return opportunities currently exist.

Included for your review are Portfolio Advisor's recommendation, a PowerPoint presentation prepared by staff, and the resolution recommending an investment in the Fund.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4632.



November 11, 2013

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

Re: TPG Opportunities Partners III, L.P.

Dear Trustees:

TPG Opportunities Partners ("TOP" or the "Firm") is raising its third private equity fund, TPG Opportunities Partners III, L.P. ("TOP III", or the "Fund"). Consistent with prior funds, TOP III will maintain the strategy of pursuing investments in special situations and value-add opportunistic credit on a global basis. TOP was established in May 2009 to capitalize on special situations and distressed investments across the credit cycle. This strategy represents a continuation of the investment activities carried out by Alan Waxman as the former Co-Head and Chairman of the Investment Committee of the Americas Special Situations Group at Goldman Sachs. Consistent with the investment activities employed over the past 15 years by Mr. Waxman, and supported by the substantial investing experience and institutional resources of TPG, TOP believes it is well positioned to source differentiated investments and migrate to the most interesting capital dislocations across Corporate Distressed-for-Control, Asset Special Situations and Corporate Dislocations opportunities on a global basis. TOP III is seeking aggregate capital commitments of \$2.6 billion and is expected to hold a first close in December 2013 with a final close expected to occur in early 2014. A hard cap on the size of the Fund is expected to be set at \$3.0 billion. The General Partner is expected to commit approximately \$90 million.

TOP III will serve as the primary TPG investment vehicle for pursuing special situations and distressed investments across the credit cycle by targeting deep value opportunities with embedded complexity that are difficult to source, analyze, or execute. TOP will seek top-down investment themes in dislocated sectors as well as bottom-up situational opportunities where it can exploit idiosyncratic or secular issues to structure investments with a skewed risk-adjusted return profile. TOP III will generally target investment opportunities between \$25 million and \$200 million in companies and assets on a global basis. In addition to the TOP team, TOP III expects to leverage the resources and capabilities of TOP's strategic sourcing and servicing platforms. As a fully-integrated platform and investment team within TPG, TOP leverages the sourcing capabilities and extensive relationship network of the global TPG team, the turn-around and operational capabilities of the TPG operating professionals and the sector intellectual capital provided by TPG's industry coverage groups. TOP expects to build the TOP III portfolio across three investment verticals: Corporate Distressed-for-Control, Asset Special Situations and Corporate Dislocations.



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

- Detailed due diligence, including interviews with industry peers and private equity professionals.
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- The strategy proposed for the Fund is appropriate for the Private Equity Partnership component of the portfolio.

The individuals at Portfolio Advisors who were primarily involved in the due diligence process for the Fund are:

John Kyles - Managing Director, Connecticut Office
Jeff Gruccio – Vice President, Connecticut Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$150 million of limited partnership interests in TPG Opportunities Partners III, L.P. Portfolio Advisors makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, 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 Fund. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,

WILLIAM J. INDELICATO
MANAGING DIRECTOR



High Yield Commitment

TPG Opportunities Partners III (A), L.P.

December 9, 2013

Joseph W. Sheva, CPA
Portfolio Manager

TPG Opportunities Partners III (A), L.P.

Market Opportunity

- As a result of consolidation, strategy shifts, and other factors impacting capital providers, the opportunity exists to provide credit to underserved companies or with assets in high barrier to entry situations

Overview

- Targeted fund size is \$2.6 billion with a \$3.0 billion hard cap
- Targeting a geographic exposure of predominantly U.S.
- Dynamically allocates capital across investment opportunities

Fund Strategy

- TPG Opportunities Partners' (TOP) capability set across Corporate Distressed-for-Control, Asset Special Situations and Corporate Dislocations on a global basis allows the fund to identify and pursue attractive investment opportunities throughout the credit cycle to earn superior risk adjusted returns. TOP seeks to minimize downside risk.



TPG Opportunities Partners III (A), L.P.

Investment Team

- TOP was established in 2009 by TPG Capital (TPG) in conjunction with Alan Waxman
- TOP is fully integrated within TPG – access to TPG’s 17 global offices and 250 investment and operating professionals
- TOP’s investment team is comprised of seven Partner Managing Directors and 38 other professionals focused on sourcing, analyzing and managing investments for TOP
- Senior investment team is based in San Francisco, New York and London
- The team’s scale, experience and integration with TPG provides significant sourcing opportunities

GP “Value Add”

- Opportunistic Multi-Strategy Approach
- Strength of Global TPG Platform

Performance

As of June 30, 2013

- TPG Opportunities Partners II, L.P. (2011): 19.1% net IRR
- TPG Opportunities Partners NPL (A)(2011): 33.3% net IRR



TPG Opportunities Partners III (A), L.P.

History with PSERS

- PSERS has invested in the following TPG Partners Funds:
 - TPG Opportunities Partners II, L.P. and TPG Opportunities Partners NPL (A) (2011): \$100 million each
 - TPG Partners L.P.: \$24 million
 - TPG Partners II L.P.: \$50 million
 - TPG Partners V L.P.: \$250 million
 - TPG Partners VI L.P.: \$360 million

Board Issues

- Placement Agent(s): TPG Capital BD, LLC
- Political Contributions in PA: None
- Relationships with Consultant: None
- Introduction Source: Current Relationship with TPG

Recommendation

Staff, together with Portfolio Advisors, LLC, recommends that the Board invest \$150 million plus reasonable normal investment expenses in TPG Opportunities Partners III (A), L.P.

NOTICE: 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.