

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

**DATE:** July 22, 2014  
**SUBJECT:** Oceanwood Opportunities Fund Recommendation  
**TO:** Members of the Finance Committee  
**FROM:** Robert E. Little, CPA  
Portfolio Manager, Non-Traditional Investment Strategies

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At the August Finance Committee meeting, staff and Aksia will recommend that PSERS invest in the Oceanwood Opportunities Fund (Fund). This Fund was originally presented to the Finance Committee at the June Finance Committee meeting. At that time, there were questions raised by the Committee that we will address at this meeting.

As a reminder, Oceanwood Capital Management, LLP was founded in 2006 by Christopher Gate. The investment team has invested in the event-driven credit space through various market cycles including the credit crisis of 2008 and the European financial crisis of 2011. The Fund invests in event-driven opportunities across Europe.

Staff recommends that the Board invest \$200 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, and the resolution recommending the investment in the Fund. Representatives from Oceanwood Capital Management will be available via video conference and representatives from Aksia will be in attendance to answer questions from the Finance Committee.

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



Absolute Return Allocation

# Oceanwood Opportunities Fund

August 5, 2014

Robert E. Little, CPA  
Portfolio Manager, Non-Traditional Investment Strategies

# Oceanwood Opportunities Fund

## **Overview of Oceanwood Capital Management, LLP**

- Founded in 2006 by Christopher Gate (CIO)
  - Former portfolio manager of the event driven investment strategy at Tudor Investment Corporation
  - Chris has managed assets in the event driven space for over 20 years
  - The senior investment management team has been together using the same investment approach for over 8 years
- Manage assets of approximately \$1.85 billion
  - All assets are managed in this strategy
- Offices located in London and Malta
- 25 employees
  - Includes 12 investment professionals (CIO, 3 senior portfolio managers, 1 senior analyst, 3 junior analysts, 2 traders, and 2 members of the risk team)

# Oceanwood Opportunities Fund

## **Fund Strategy**

- Focus on event-driven opportunities in Europe
- Invest in all parts of the capital structure

## **Fund Targets**

- Returns
  - Target 12% to 15% annualized returns over a full market cycle
- Volatility
  - 12% to 15% annualized
- Correlation
  - Moderate correlation to equity or credit beta over the long term

# Oceanwood Opportunities Fund

## **Key Investment Considerations**

- PSERS will gain access to an experienced investment team solely focused on European and cross-border situations
- Incorporate both top-down macroeconomic themes and bottom-up fundamental company analysis to understand situations for the unique opportunity they present
- Have experience adjusting to varying market environments
- Willing to shift between equity and credit securities to structure trades

## **Key Investment Risks**

- The portfolio is generally net long equity or credit
  - In a downturn, the portfolio will lose money but should outperform the equity and credit indexes
- The portfolio invests in multiple trades of a single theme
  - There will be some thematic concentration risk

# Oceanwood Opportunities Fund

## Performance (through 06/30/2014)

	1 year	3 year	5 year	Inception to Date
Returns, net of fees	15.5%	8.9%	15.7%	9.8%
Volatility	3.8%	11.3%	12.3%	11.3%
Sharpe Ratio	4.04	0.77	1.26	0.73

The return data is net of the standard fee schedule

(1.75% management fee, 20% performance fee for Class A shares).

Inception date: September 2006

# Oceanwood Opportunities Fund

## **Portfolio Use**

- Invest \$200 million in the Oceanwood Opportunities Fund
- Include this investment in the Absolute Return asset class

## **History with PSERS**

- This investment will be PSERS' first investment with Oceanwood Capital Management, LLP

## **Other**

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

# Oceanwood Opportunities Fund

## **Fund Terms (Class B Institutional Plus shares)**

- Management fee: 1%
- Performance fee: 15%
- Hurdle rate: 0%
- High water mark: Yes
- Subscriptions: Accepted on a monthly basis
- Lock up period: Two year hard lock with annual liquidity thereafter
- Liquidity:
  - Annual (first day of the calendar quarter occurring on or after the expiration of two years from the acquisition date) with 90 days prior written notice
  - Quarterly during any period in which redemptions from the Fund have been limited as a result of a gate provision
- Transparency: Strategy-level transparency is available on a monthly basis



# Oceanwood Opportunities Fund

## Recommendation

Staff, together with Aksia LLC, recommends (i) that the Board invest \$200 million in the Oceanwood Opportunities Fund, and (ii) that the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit D of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time, provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

**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.

**Manager Recommendation Memo**

July 22, 2014

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

Re: Oceanwood Opportunities Fund

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and herewith recommends a direct allocation to Oceanwood Opportunities Fund ("Oceanwood") in line with PSERS Investment Policy Statement, Objectives, and Guidelines.

Prior to launching Oceanwood in 2006, Chris Gate was the portfolio manager of the event driven investment strategy at Tudor Investment Corporation, and prior to that was the Head of Equity Proprietary Trading at Barclays Capital. At the time of the launch, the fund received tremendous attention from investors and quickly raised approximately \$1bn. In late 2008, despite the manager distinguishing itself by outperforming its peers, the fund experienced significant redemptions, and firm assets dwindled by mid-2009 to under \$400mm. Post-redemptions, they were able to keep the team together by expanding the partnership, and as of this writing, the firm's assets have recovered to approximately \$1.77bn. We view favorably the manager's experience in managing the business through a difficult market cycle.

Competition in the manager's space has been greatly diminished in recent years. As prop desks have virtually disappeared and a number of European hedge funds were forced to restructure or shut down, there now remain only a few European-based event driven managers who invest across both distressed credit and equity. Compared to its peer funds, Oceanwood incorporates more top-down and bottom-up inputs into its process, which has helped the manager not "miss the forest for the trees." There is a large emphasis on fundamental company analysis and understanding situations for their uniqueness, although the team appears to often come to the same conclusions about individual investments and broader economic themes, which leads to a house view.

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

- Due diligence of Oceanwood's investment process, including a review of their investment strategy, investment team and structure, and risk management process;
  - Most recent on-site Investment Due Diligence visit conducted July 01, 2014.
  - The following is a listing of the relevant points of contact with the manager since the most recent Investment Due Diligence report was completed in December 2013.

Date	Nature of Contact	Aksia Points of Contact
July 01, 2014	Onsite with CIO & senior investment team	P. Adelsbach, V. Petropoulos
June 30, 2014	Call discussing current portfolio and outlook	V. Ivanson
May 29, 2014	Call for business update	V. Ivanson
April 03, 2014	Call with investment staff	V. Ivanson
March 11, 2014	Portfolio update & outlook w/ Chris Gate	V. Ivanson
February 13, 2014	Call for portfolio update	P. Adelsbach, V. Ivanson
January 07, 2014	Onsite meeting w/ Julian Woods	V. Ivanson
December 02, 2013	Update on Spanish NPLs trade	V. Ivanson

- Due diligence of Oceanwood's operations, including an operations and infrastructure review, regulatory and compliance review, PPM review, Form ADV review, and Financial Statement Review;
  - Most recent on-site Operational Due Diligence visit conducted May 08, 2014.
- Evaluation of Oceanwood's strategy within the context of the current investment environment; and
- Appropriateness of Oceanwood as a 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 Oceanwood, 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 Oceanwood. 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