



Park Square-PSERS Credit Opportunities Fund, L.P.

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Park Square-PSEERS Credit Opportunities Fund, L.P.

Market Opportunity

- Three main contributors to the supply/demand imbalance seen in European debt markets: (i) major changes in Bank Regulations, (ii) new CLO regulations limited new issuances, (iii) bank mergers
- Pricing for Senior and subordinated direct and secondary lending in the European markets is at historically attractive levels. Additionally, many loans are also being issued at a discount to par at refinance, leading to yields of 5.5%-6.5% on senior and 9%-13% on subordinated. These loans are floating rate instruments, so any increases in interest rates will increase the yield. Lack of supply has also enabled stricter, more conservatively structured transactions.

Overview

- Since 2005 Park Square Capital has invested over €4.4 billion into European private debt
- Targeted fund size is \$650 million, PSEERS would invest pro-rata through a separate fund-of-one vehicle. Total capital raised for strategy will not exceed €2 billion.
- The fund-of-one will invest 75% or more in Senior Debt Investments and up to 25% in Subordinated Investments (including mezzanine and second liens) with leading Private Equity sponsors in large, profitable, non-cyclical businesses
- Targeting a geographic exposure of predominantly Europe, with limit of 35% permitted elsewhere
- Quarterly distributions of income, with expected annual yield of 7-8% and net fund return of 10-11%
- Evergreen structure with recycling of principal during investment period

Fund Strategy

- Exercise leadership role in originating, structuring and anchoring new, large (>50M Euro) leveraged loan opportunities while also opportunistically pursue secondary markets where risk adjusted return metrics are attractive. These larger issuances tend to be less volatile, have lower default rates and higher recovery rates
- Partner with leading sponsors, leveraging scale to secure preferential access and economics. Focus on larger transactions, particularly new deals where banks are unable to compete.
- Pursue partnerships with balance sheet and capacity constrained Banks to provide refinance capital to their customers

See Final Slide for Disclaimer

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Investment Team

- Park Square Capital was founded in 2004 by Robin Doumar, who had previously led the Goldman Sachs European leveraged finance, mezzanine, workout and restructuring activities. Currently employs 47 total staff, including 19 investment professionals. Investment team all based in London but represent 13 nationalities including: British, French, German, Italian, Spanish and Swedish.
- Robin Doumar, Managing Partner, and six Partners form the Investment Committee and each are responsible for following their deals through out the entire hold period.

GP “Value – Add”

- Credit only, independent platform owned by senior professionals. With significant personal investments at risk, stay extremely focused on successful execution of strategy
- Established network of strong LBO sponsors, and banks across Europe’s local markets
- Strong track record across economic cycles, with no defaults on Senior debt investments. Realized 77% of investments achieving a gross MOIC of 1.4x

Performance as of 3.31.14

- Credit Opportunities I (2007): (primarily Senior Debt positions) € 609 million invested, Net IRR 5.7%, Net MOIC 1.15x
- Credit Opportunities I-B (2011): € 231.8 million invested, Net IRR 11.8%, Net MOIC 1.28x
- Capital Partners I (2005): €1.33 billion invested, Net IRR 7.9%, Net MOIC 1.5x
- Capital Partner II (2010): €662 million invested, Net IRR 17.9%, Net MOIC 1.3x

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Risks and Mitigants:

Risk: Historic levels of investable Private Equity capital

Mitigant: This will generate high level of deal volume for Park Square, and generally increase the demand for leveraged loans as merger and acquisition activity increases. However, strict adherence to underwriting standards must be maintained.

Risk: Less conservatively structured and lower priced debt due to increase of capital in market

Mitigant: Although there are approximately 40 managers currently raising capital for Europe debt, there are only around 5-10 managers that invest in the size of deal that Park Square will invest. In the past, there were up to 60 investors in this space. At this time there appears to be more than sufficient demand to support this investment without impacting underwriting or pricing. Should the market shift, the structure of PSERS investment would allow for any necessary changes

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History with PSERS

- This will be PSERS first investment with Park Square Capital, LLP

Board Issues

- Placement Agent(s): UBS Limited
- Political Contributions in PA: None
- Relationships with Consultant: No
- Introduction Source: Kevin Kuryla, UBS Limited

Recommendation

Staff, together with Portfolio Advisors, LLC, recommend that the Board invest \$200 million plus reasonable normal investment expenses in Park Square-PSEERS Credit Opportunities Fund, 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.



July 16, 2014

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

Re: Park Square Separate Managed Account ("PSSMA")

Dear Trustees:

Park Square Management ("Park Square", or "the Firm") is offering a Separate Managed Account ("SMA") to invest in European credit positions. The SMA has the same investment strategy as the Park Square Capital Credit Opportunities II Fund (Credit Opps II, "Fund II" or "the Fund"). At least 75% of the SMA will be invested in European senior debt positions, with up to 25% being invested in European subordinated debt. The senior debt allocation will have term leverage of 1:1, whereas the subordinated debt investments will be unlevered. In addition, a subscription facility will be used to defer drawdowns from PSERS and further enhance the IRR. Credit Opps II is targeting a fund size of €500 million and has raised about €250 million so far. Including Separate Managed Accounts, the total senior debt program managed by Park Square shall not exceed €2 billion. The final closing for Fund II is expected to take place at the end of 2014. The GP will invest 1% of total capital commitments into Credit Opps II.

Park Square will focus on larger transactions where the absolute need for capital is greater. Larger issuers also tend to be more established companies with a longer trading history and experience operating in a leveraged environment. Park Square believes that financing such businesses provides attractive/solid risk-adjusted returns, as the probability of default is lower and the likelihood of recovery in the event of a default is significantly enhanced. The SMA will seek to generate attractive/solid returns by partnering with banks to provide capital in larger transactions where the banks are balance sheet and capacity constrained, serving as a partner rather than a competitor to traditional lenders.

Park Square will focus on transactions with the following characteristics:

- ◆ **Highly Defensive Businesses with Leading Market Positions:** Park Square prefers non-cyclical industry sectors with high barriers to entry. The Firm believes that these businesses generally demonstrate greater resilience in periods of economic downturn, which supports its overriding strategy of capital preservation.
- ◆ **Profitable Companies with Stable and Predictable Cash Flows:** Park Square seeks to make debt investments in businesses with a proven record of operating profitability. The investment team rigorously evaluates the historical and prospective financial performance of each investment opportunity to assess the reliability and sustainability of its cash flows.



- ◆ **Favorable Investment Structures:** Park Square seeks debt positions with a favorable risk-adjusted position in the capital structure. This often includes a significant equity contribution by the sponsor, providing a meaningful value buffer in the event of adverse developments. Additionally, Park Square seeks to achieve strong structural protections such as enforceable security over the assets of a borrower, conservative leverage and maintenance covenants, which usually require that the company meet certain performance tests relative to its business plan. Park Square believes these structural protections support the Firm’s “high-touch” and relationship-orientated investment approach through promoting an ongoing dialogue with portfolio company management teams.
- ◆ **Leading Private Equity Sponsors:** Park Square has an in-depth knowledge of the European sponsor universe and has invested in transactions with over 39 private equity sponsors, including multiple transactions with many of these firms. The Firm believes the quality of the financial sponsor and its investment style, together with its capacity to support transactions with additional invested equity, are important components in assessing the overall risk of an investment.
- ◆ **Experienced Management Teams:** Quality and experience of the target company’s management team is of crucial importance in assessing an investment opportunity.

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. The on-site due diligence visit was performed on April 24, 2014.
- 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:

Peter Schwanitz – Managing Director, Zurich Office
Nadine Zangger – Senior Associate, Zurich Office



Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$200 million of limited partnership interests in Park Square Separate Managed Account. 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,

A handwritten signature in blue ink, appearing to read "WJ Indelicato", is written over a light blue rectangular background.

WILLIAM J. INDELICATO
MANAGING DIRECTOR