



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

AKAZ Offshore Fund Ltd
Absolute Return Program

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

September 17, 2018



Recommendation:

Staff, together with Aksia, recommends that PSERS allocate up to \$200 million to the AKAZ Offshore Fund Ltd (Fund). This recommendation is based on our assessment of the investment strategy and our evaluation of AKAZ Investment Partners LP's (AKAZ) capabilities.

Firm Overview:

AKAZ is a hedge fund manager that was founded in March 2018 by Ahsim Khan (Chief Investment Officer) and Adam Zimble (President). Ahsim and Adam are the sole shareholders. AKAZ's only hedge fund product, AKAZ Master Fund Ltd, was launched in July 2018.

Prior to co-founding AKAZ, Ahsim Khan was a Partner and Senior Trader at Brevan Howard for seven years. PSERS invested in the Brevan Howard Fund Limited and the Brevan Howard CMBS Fund Limited while Ahsim Khan was at Brevan Howard.

Market Opportunity / Investment Strategy:

The investment objective is to maximize risk-adjusted returns in all market environments. AKAZ seeks to execute this objective through both long and short positions, primarily but not exclusively, through options on major equity indices and currencies. The Investment Manager will mostly invest in North American, European, and Japanese economies.

AKAZ employs macroeconomic analysis to develop views on global asset prices. The Investment Manager then seeks to identify which of its views are most mispriced by the market, as seen through the current price of the asset in question and/or the current price of options or other derivatives on that asset. Once an opportunity is identified, the Investment Manager looks to create trade structures, primarily involving options strategies, that would maximize the asymmetry of the risk-reward of the position.

Idea generation starts with traditional macroeconomic research and analysis. Research will be obtained from many diverse outside sources, while all analysis is generated internally. The next step is to build an understanding of the market expectations, and then, benchmark their own views against the market consensus. For assets where there is a divergent view, AKAZ will look for trade structures that offer asymmetric payouts if the Investment Manager's expectations are proven out to be correct. The goal is not to find assets where the Investment Manager's view is most different but rather to find assets for which their view offers the best payout. When an attractive trade can be identified, AKAZ will size the trade according to their level of conviction, the duration of the trade structure, and the existing portfolio profit and loss at that point in time.

The Investment Manager aims to identify three to four core fundamental thematic positions per year. Typically, the portfolio will only be invested in one core theme at a time. Core themes are typically sized, not necessarily at initiation but at some point thereafter, to lose as much as 5% in an adverse scenario but with a targeted contribution of three to five times the amount at risk should an investment thesis prove to be correct within an expected time frame. Themes will be expressed primarily through listed option trades. The Investment Manager expects to trade positions actively, taking into consideration the impact that price appreciation, duration, or changing volatility can have on the risk-reward and/or the optimal position structure.

Portfolio Fit:

The investment in the strategy will be part of the Absolute Return Program.



Investment Instruments:

The Fund will primarily trade highly liquid, listed and over-the-counter options and, to a lesser extent, equity index futures and foreign exchange forward contracts.

Investment Team / Key Personnel:

Ahsim Khan and Adam Zimbler are the co-founders of AKAZ. Biographical data for Ahsim and Adam is presented below.

Ahsim Khan is the Chief Investment Officer and Managing Partner of the Investment Manager and a shareholder of the general partner of the Investment Manager. Prior to co-founding the AKAZ in 2018, Mr. Khan was a Partner and Senior Trader at Brevan Howard. Prior to joining Brevan Howard in 2010, Mr. Khan spent seven years at Morgan Stanley in New York. At the time of his departure, he was an Executive Director and the Head of North America Securitized Product Trading. Mr. Khan graduated *cum laude* from the Jerome Fisher Program in Management and Technology at the University of Pennsylvania in 2003, earning a B.S. in Economics from The Wharton School and both a B.A.S. and M.S. in Systems Engineering from the School of Engineering & Applied Sciences.

Adam Zimbler is the President and a member of the Investment Manager and a shareholder of the general partner of the Investment Manager. Prior to co-founding AKAZ in 2018, Mr. Zimbler was a co-founder and Partner at Blockhouse Capital Management, serving as the firm's Director of Research. Prior to Blockhouse, Mr. Zimbler was a Managing Director at PointState Capital Management from 2014 to 2016. From 2011 to 2014, Mr. Zimbler was the Managing Partner of SLZ Capital Management, which he founded. From 2005 until 2011, Mr. Zimbler worked at Goldman Sachs Investment Partners and its predecessor entity Goldman Sachs Principal Strategies, departing as a Vice President. Mr. Zimbler received a B.S. in Economics, *summa cum laude*, with a concentration in Finance from The Wharton School of the University of Pennsylvania in 2003; a B.A. in International Studies, *summa cum laude*, with a minor in Asian and Middle Eastern Studies from the College of Arts and Sciences of the University of Pennsylvania in 2003; and an M.Phil. in Political Theory from the University of Oxford, where he was a Marshall Scholar, in 2005.

The investment team consists of Ahsim Khan, Adam Zimbler, and Stephen Nixon. Given the portfolio construction (typically one theme with a limited number of line items traded around that theme), a large investment team is not needed. Information on the other key personnel is presented below.

Name	Title	Years' Experience Firm / Total	Prior Experience
Russell Shostack	Chief Financial Officer / Chief Compliance Officer	<1 / 16	Civic Capital Advisors / Citco Fund Services / International Fund Services / Deloitte & Touche LLP / PricewaterhouseCoopers
Bill Passias	Director of Operations	<1 / 16	Atreaus Capital / Barclays Capital / JP Morgan Chase Bank
Stephen Nixon	Head Trader	<1 / 26	Instinet / Moore Capital Management / Tricon Holdings



Investment Highlights:

- Strategic Partnership
- Transparency
- Defined Downside Risk
- Alignment of Interests
- Discipline

Investment / Risk Considerations:

- Limited Operating History
- Concentration of Risk
- Use of Leverage
- Staffing

Finance Committee Disclosure:

Relationship with Aksia:	None Disclosed
Introduction Source:	PSERS invested in the Brevan Howard Fund Limited in May 2010. In addition, PSERS invested in the Brevan Howard CMBS Fund Limited in May 2012. Ahsim Khan was the portfolio manager for this fund.
Placement Agent:	None Used
PA Political Contributions:	None Disclosed
Potential Conflicts:	We are not aware of AKAZ having any material conflicts.
PSERS History with the Investment Manager:	This investment will be PSERS' first investment with AKAZ.
PSERS Allocation Implementation Committee Approval:	September 17, 2018

Oversight Responsibility:

Investment Office:	Charles J. Spiller Robert E. Little	Deputy CIO, Non-Traditional Investments Senior Portfolio Manager, Non-Traditional Investments
External Consultant:	Aksia LLC	

Manager Recommendation Memo

September 11, 2018

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

Re: AKAZ Offshore Fund Ltd

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and hereby recommends a direct allocation to AKAZ Offshore Fund Ltd ("AKAZ") in line with PSERS Investment Policy Statement, Objectives, and Guidelines. It is further recommended that PSERS invest up to \$200 million in AKAZ.

AKAZ was launched in July 2018 by Ahsim Khan, who had previously spent seven years as a portfolio manager at Brevan Howard and before that spent the first seven years of his career at Morgan Stanley, where he ran the securitized products franchise. He joined Brevan in 2010, initially focusing on macro trading in CMBS (reportedly 90% of his risk). Following the dislocation in securitized credit markets in 2011, Ahsim saw significant value in pre-crisis AM (mezzanine) and AJ (junior) tranches, and it became a significant theme in the Brevan Howard Master Fund, with an opportunistic CMBS fund following shortly thereafter. Both performed strongly, and Ahsim's focus shifted to FX and equity index trading, with a secondary emphasis on rates from 2014 until his departure at the end of 2017. AKAZ pursues a concentrated, thematic, global macro strategy across global currencies, equity indices, rates, and occasionally commodities and credit indices. The manager expects to typically identify one fundamental macro theme for inclusion in the portfolio at any given time. Themes are expressed through several trades, which are generally long positions in options or option spreads.

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

- Due diligence of the fund's investment process, including a review of the investment strategy, investment team personnel and structure, and risk management;
 - On-site investment due diligence visit conducted July 27, 2018.
- Due diligence of the fund's operations, including an operations and infrastructure review, regulatory and compliance review, PPM review, and Form ADV review;
 - On-site operational due diligence visit conducted August 1, 2018.
- Evaluation of AKAZ within the context of the current investment environment; and
- Appropriateness of AKAZ as a component of the PSERS' portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in AKAZ, 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 AKAZ. Aksia manager recommendation memos should be reviewed with other Aksia due diligence materials, including the due diligence reports. 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,



Norman Kilarjian
 Partner, Head of Macro & Quant Strategies



Simon Fludgate
 Partner, Head of Operational Due Diligence