Public Investment Memorandum

Sixth Street Specialty Lending Europe II, L.P.

Private Credit Commitment

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November 16, 2020

Executive Summary

PSERS' Investment Office Professionals ("IOP"), together with Aksia, recommend that PSERS commit $125 million to Sixth Street Specialty Lending Europe II, L.P. (the "Fund" or "SLE II"). This recommendation is based on our assessment of the investment strategy and our evaluation of Sixth Street Partners, LLC and its affiliates ("Sixth Street" or the "Firm").

Fund Name	Sixth Street Specialty Lending Europe II, L.P.
Firm Name	Sixth Street Partners, LLC
Target Fund Size / Hard Cap	€800 million / €1.0 billion (approximately $937 million / $1.2 billion) [1]
Recommended Commitment Amount	$125 million
Existing Relationship	Yes
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Credit / Direct Lending
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments James F. Del Gaudio, Senior Portfolio Manager Sean T. Sarraf, CFA, Investment Professional
External Consultant Oversight	Aksia LLC

[1] EUR/USD exchange rates as of October 31, 2020 of 1.1722 EUR/USD (Source: Burgiss)

Sixth Street (formerly TPG Sixth Street Partners or TSSP) is a global investment platform with approximately $48.2 billion in assets under management as of October 1, 2020. Sixth Street was co-founded in 2009 by Alan Waxman (Managing Partner and Co-CIO) and is currently managed by 19 Partner Managing Directors and employs approximately 290 professionals with offices in San Francisco, New York, Houston, Dallas, Boston, London, Hong Kong, Melbourne, and Luxembourg. Prior to forming Sixth Street, Mr. Waxman was the Co-Head and Chairman of the Americas Special Situations Group ("AmSSG") at Goldman Sachs ("GS"), where he also worked with seven of the other Sixth Street Partner Managing Directors. Until recently, Sixth Street was an affiliate of TPG Capital ("TPG"). However, in January 2020, Sixth Street and TPG together decided to pursue their respective next phases as independent organizations, and the TSSP platform has been rebranded as Sixth Street Partners, LLC. This is the latest in a decade-long evolution of the relationship between the two firms as Sixth Street autonomously controlled and managed its business prior to the separation.

The Fund is targeting €800 million in capital commitments and seeks to generate attractive risk-adjusted returns primarily through investing in directly originated middle-market European credit opportunities with a thematic, migratory approach across sectors and countries. The Fund will target investments that are first lien, floating rate, and call-protected, with firm covenants, and other lender protections. Geographically, the Fund seeks to invest within the United Kingdom, Western Europe, and the Nordics, but with flexibility to pivot opportunistically to maximize potential in core themes. The Fund is Sixth Street's second dedicated vehicle to this strategy. In its predecessor fund, *TSSP Specialty Lending Europe Fund I, L.P.* ("TSLE I"), Sixth Street has invested €946 million across 18 European direct lending investments and has generated a net IRR of 11.7% (USD Feeder), as of June 30, 2020. Despite SLE II being only the second dedicated vehicle to this strategy, Sixth Street has a long track record of strong performance in middle market direct lending, having invested a total of $12.1 billion ($6.2 billion in Europe) across 191 middle market lending investments, while generating a 15.9% net IRR, as of June 30, 2020.

PSERS and Sixth Street have a long-standing partnership, and to-date, PSERS has committed $1.4 billion across six Sixth Street-managed funds including:

- $100 million to TPG Opportunities Partners II (A), L.P. in 2011 ("TOP II")

- $150 million to TPG Opportunities Partners III (A), L.P. in 2014 ("TOP III")
- $150 million to TSSP Opportunities Partners IV (A), L.P. in 2018 ("TOP IV")
- $100 million to TOP NPL (A), L.P. in 2012
- $700 million to TSSP Adjacent Opportunities Partners via three separate tranches (TAO 2.0/2014, TAO 3.0/2015, and TAO Contingent/2018) of the PSERS TAO Partners Parallel Fund, L.P. (the "PSERS TAO").
- $200 million to Sixth Street Fundamental Strategies Partners (A), L.P. in 2020

Market Opportunity

Within direct lending, the period leading up to the onset of COVID-19 was characterized by lower pricing, weaker loan terms, and higher leverage levels. At the same time, the relative strength of company balance sheets, and abundance of available liquidity, limited rescue financing opportunities while compressing spreads in all tranches of the capital structure, as lenders sacrificed credit quality to enhance yield.

Subsequent to the COVID-19 crisis, spreads and lender protections have improved along with the risk / reward dynamics embedded in new loan opportunities. Given these trends, Sixth Street expects there to be additional opportunities for SLE II to invest in larger, more-stable capital structures at decreased risk levels, and higher transaction volumes. These transaction types with greater downside protection were more difficult to source for Fund I given the aforementioned spread compression, which caused loan pricing to fall below the Firm's cost of capital. Fund II is well-positioned to take advantage of lower risk transactions, without modifying return expectations. Moreover, the pandemic has broadly increased the need for borrower liquidity which has in-turn contributed to an improved pipeline of potential rescue financing opportunities.

To put this momentum in context, Sixth Street focuses on three primary deal-types: (i) good businesses with good balance sheets; (ii) good businesses with bad balance sheets; and (iii) bad businesses with good assets. Prior to COVID-19, competition for sponsor-backed transactions negatively skewed the embedded risk / reward dynamics, and balance sheet stress was limited, limiting opportunities in the first two primary target transaction-types for TSLE I. By contrast, post-COVID-19, all three primary origination verticals are generating deal flow for Fund II at improved pricing. Adding to pipeline momentum is the SLE team's growing presence and reputation in the region, which has resulted in additional opportunities for repeat partnerships and follow-on investment with existing borrowers.

Investment Strategy

Sixth Street operates under a "one-team" construct, in which team members have key focus areas but frequently act as generalists and are incentivized to share opportunities across the platform, independent of specific vehicles or strategies, when sourcing and underwriting potential investments. The Fund will provide debt capital to European middle-market companies, typically providing financing to companies with an enterprise value between €50 million and €1.5 billion. The broad enterprise value range speaks to SLE II's ability to invest alongside other Sixth Street-managed funds in larger transactions that can scale up to deal sizes in excess of €500 million. This cross-platform collaboration gives SLE II the flexibility to invest in a target company's entire debt capital structure.

Investment themes will drive origination and overall composition of the SLE portfolio. The SLE team will continually evaluate opportunities to develop themes in sectors that offer the greatest risk-adjusted return, and in the current environment, have identified the following priority themes: tech-enabled business services, recurring revenue software and fintech payments, retail asset-based lending, and rescue financing opportunities.

The Fund will seek to finance companies that exhibit the following attributes: (i) high cash flow generative, stable companies in defensible industries with diversification across customers and end markets that are mission critical to their value chain, (ii) businesses in industries that are experiencing secular growth, especially industries where high growth is supported by strong unit economics and high recurring revenue, or (iii) businesses backed by liquid collateral value, where return of capital is linked to the liquidation of hard assets (such as accounts receivable and inventory) and not enterprise value. The strategy is capital preservation focused, concentrating on the ability to quantitatively underwrite to the downside. In structuring transactions, the Fund will use highly customized loan documentation designed with protective covenants with an emphasis on intercreditor dynamics.

In terms of geographic exposure, the Fund will invest primarily in the United Kingdom and other Western European jurisdictions, including the Nordic region, DACH region (German speaking), and France. SLE II may also invest opportunistically in Spain, Italy, or other European geographies with developed creditor rights. The Fund will avoid countries where there is not a clear creditor protection regime (i.e. emerging market private credit).

Investment Structure:

The Fund seeks to generate attractive risk-adjusted returns across credit cycles primarily through the direct origination of European middle market credit investments in companies with enterprise values generally ranging from €50 million to €1.5 billion. Investment returns will be generated primarily through interest income, OID (original issue discount), closing fees, prepayment fees, and other fee income. When including management fees and carried interest, the Fund is targeting to generate net returns of 11.0% to 14.0%. Investments are expected to be concentrated in senior secured debt (60% to 75%). The Fund may also invest in secured mezzanine investments (20%) and opportunistically in structured equity or equity co-investments (5% to 20%). Debt investments are typically made with terms of three to five years; however, average holding periods are expected to be approximately two years as loans are repaid or refinanced prior to maturity. The Fund will target position sizes between 4 to 6%. SLE loans generally will have call protection and will be structured to include financial maintenance covenants.

While the Fund's offering documents do permit up to 1:1 (Debt to Equity) portfolio-level leverage in this strategy, Sixth Street does not anticipate leverage to exceed 0.3:1, in line with TSLE I averages. In terms of currency management, PSERS' commitment will be through the Fund's USD-denominated feeder. As such, Sixth Street will hedge all non-USD positions back to USD using rolling forward currency sales to protect against declines in the value of investments or commitments as a result of fluctuations in currency exchange rates.

Investment Instruments

Investment instruments will primarily consist of senior-secured floating rate loans or asset-backed leverage structures with senior claims to underlying hard assets. The Fund may also engage in secondary activity via sub-participations and loan purchases from fronting institutions, debt securities, and/or other similar credit investments. Additionally, SLE II may invest opportunistically in mezzanine instruments, structured equity, and/or equity co-investments.

Portfolio Fit

The Fund will be allocated to the Direct Lending bucket of PSERS' Private Credit portfolio. The table below summarizes PSERS' projected exposure inclusive of a recommended $125 million commitment to SLE II:

Investment Strategy ($M)	NAV	%	Unfunded[1]	%	Total Exposure[1]	%
Distressed & Special Situations	$ 2,276.0	43.5%	$ 1,297.1	38.2%	$ 3,573.1	41.4%
Direct Lending	1,287.2	24.6%	887.7	26.2%	2,049.9	25.2%
Real Estate Credit	288.4	5.5%	645.9	19.0%	934.4	10.8%
Mezzanine	484.9	9.3%	236.4	7.0%	721.4	8.4%
Real Assets Credit	375.5	7.2%	126.7	3.7%	502.3	5.8%
Structured Credit	480.9	9.2%	0.0	0.0%	480.9	5.6%
Specialty Finance	35.2	0.7%	200.0	5.9%	235.2	2.7%
Total	**$ 5,228.3**	**100.0%**	**$ 3,393.9**	**100.0%**	**$ 8,497.2**	**100.0%**

(1) Include post Q2'2020 pending/closed commitments.
(2) Values may be slightly off due to rounding

A commitment to the Fund allows PSERS to expand its relationship with a high-conviction manager while expressing PSERS' IOP positive view on the go-forward risk / reward dynamics in senior-secured Direct Lending. An allocation to the Fund also increases the portfolio's geographic exposure to Direct Lending within Western Europe. The Fund's return target meets the return objective for PSERS' Private Credit portfolio of generating double-digit net returns over the life of the investment.

Investment Highlights

- Experienced and Cohesive Senior Management Team / Established Platform
- Compelling go-forward Market Opportunity for SLE Strategy
- Thematic Sourcing and Differentiated Approach
- Conservative Underwriting with an Emphasis on Capital Preservation
- Strong Performance in Predecessor Funds
- Improved Fee Structure from Prior Fund
- Well-Resourced Back and Middle Office

Investment / Risk Considerations

- Competitive Market Environment
- Slow Deployment Pace in TSLE I
- SLE Team Managing Director Departures
- Sixth Street Disaffiliation with TPG Capital

Investment Committee Disclosure

Relationship with Aksia	Aksia represents both non-discretionary and discretionary clients with commitments to various Sixth Street-managed investments. It is not yet known if additional Aksia clients will commit to this Fund.
Introduction Source	Fund Sponsor
Placement Agent	In accordance with Board policy, no placement agents were used, and no payments from or on behalf of PSERS to Placement Agents shall be made in connection with securing PSERS' investment in the Fund.
PA Political Contributions	None Disclosed
Conflicts	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
PSERS History with the Investment Manager	Yes, PSERS previously committed $1.4 billion across six Sixth Street-managed partnerships.
Litigation Disclosure	Sixth Street receives communications from regulators and is involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has or may have a material effect on the Fund.
PSERS Allocation Implementation Committee Approval	November 16, 2020

Aksia

Manager Recommendation Memo

November 3, 2020

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

Re: Sixth Street Specialty Lending Europe II, L.P.

Dear Trustees:

Aksia LLC ("Aksia"), having been duly authorized by the Board of PSERS, has evaluated and hereby recommends, in line with PSERS' Investment Policy Statement, Objectives, and Guidelines, an amount not to exceed $125 million, plus reasonable normal investment expenses, in Sixth Street Specialty Lending Europe II, L.P. (the "Fund" or "SLE II") (and/or related investment vehicles).

Sixth Street Advisors LLC ("Sixth Street") (formerly known as TSSP) was established as a separate subsidiary on TPG's platform in 2009 by Alan Waxman and other former senior professionals from Goldman Sachs' Special Situations Group. Sixth Street officially separated from TPG on May 1, 2020; TPG retains a passive minority stake in Sixth Street.

The Fund will provide debt capital to European middle-market companies, providing financing to sponsor-backed companies with an enterprise value between €50.0 million and €1.5 billion. SLE II has the ability to invest alongside other Sixth Street funds in larger transactions, and this cross-platform collaboration gives SLE II the flexibility to speak for a target company's entire debt capital structure. This provides Sixth Street and the Fund with an attractive offering to private equity sponsors and borrowers. The Fund is targeting a €1 billion maximum capital raise and is expected to hold its final close at the end of 2020.

Aksia believes Sixth Street to have a strong, established platform with an experienced team. The Fund should benefit from Sixth Street's sizeable infrastructure, broad market knowledge, widespread deal sourcing, and ability to invest alongside other Sixth Street funds in larger transactions. The direct lending strategy employed by the Fund is opportunistic in nature and employs an interesting approach that we think differentiates it from more traditional sponsor-focused direct lending strategies in Europe.

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 sponsor, investment strategy, market positioning, investment personnel, and risk management;
    - Most recent investment due diligence review conducted April 1st, 2020.
- Due diligence of the Fund's operations, including a review of its organizational structure, service providers, regulatory and compliance, LPA and financial statement analysis;
    - Most recent operational due diligence review conducted October 12th, 2020.
- Evaluation of the Fund's strategy within the context of the current investment environment; and
- Appropriateness of the Fund's strategy 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 the Fund, since their needs, objectives, and circumstances may not be identical to those of PSERS. 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,

Patrick Adelsbach
Partner, Head of Credit Strategies

Simon Fludgate
Partner, Head of Operational Due Diligence