PSERS

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

ICG Europe Fund VIII, SCSp

Private Credit Commitment

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Executive Summary

PSERS' Investment Office Professionals ("IOP"), together with Hamilton Lane, LLC ("Hamilton Lane") recommend that PSERS commit an amount not to exceed €200 million plus reasonable normal investment expenses to ICG Europe Fund VIII SCSp (the "Fund", "Fund VIII" or "ICG VIII") and/or related investment vehicles. This recommendation is based on our assessment of the investment strategy and our evaluation of Intermediate Capital Group plc and its affiliates ("ICG" of the "Firm").

Fund Name	ICG Europe Fund VIII SCSp
Firm Name	Intermediate Capital Group plc (public listed company)
Target Fund Size / Hard Cap	€7.0 billion / TBD
Recommended Commitment Amount	€200 million ($244.5[1])
Existing Relationship	Yes
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Credit / Mezzanine
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments James F. Del Gaudio, Senior Portfolio Manager Sean T. Sarraf, Investment Professional
External Consultant Oversight	Hamilton Lane, LLC

[1]Based on exchange rate of 1.2225 EUR/USD as of December 31, 2020 (Source: Burgiss)

Founded in 1989, ICG is a publicly listed asset manager operating across the credit landscape. Until 1994, ICG invested in European subordinated debt/intermediate capital exclusively from ICG's balance sheet. In 1994, ICG began managing funds on behalf of third-party investors through managed investment accounts. ICG was listed on the London Stock Exchange in June 1994, where it trades under the ticker "ICP", and was recently included in the FTSE 100 Index. In 1998, ICG raised ICG Europe Fund I, its first third-party fund targeting subordinated debt/intermediate capital investments across Europe. Since then, additional third-party European funds, Asia Pacific funds, and a North American fund have been launched to invest in subordinated debt/intermediate capital opportunities.

The Firm expanded its investment strategy in the late 1990s to include senior secured loans and high yield bonds, capitalizing on the firm's deep knowledge of and experience in the leveraged buyout ("LBO") market. In 1999, ICG raised its first European collateralized debt obligation fund. In doing so ICG, through its wholly owned European investment management subsidiary Intermediate Capital Managers Limited ("ICML"), became one of the first fund managers of European senior secured loans and high yield bonds. More recently, ICG established a European and Asian direct lending business, completed the acquisition of their remaining stake in Longbow Real Estate to create a full subsidiary, and launched their Alternative Credit Fund, a multi-strategy structured credit hedge fund. Today, ICG has ~450 employees (200 investment professionals) across 15 offices in 14 countries. The day-to-day investment activities of Fund VIII will be overseen by 28 local investment professionals operating from ICG's offices in London, Frankfurt, Milan, Madrid, Paris, Stockholm, and Amsterdam.

As of December 31, 2020, ICG had total AUM of ~$56.7 billion, of which ~$13.2 billion is allocated to their subordinated debt and equity strategy. The table below summarizes ICG's AUM and strategic focus by business segment as of December 31, 2020:

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Strategy	AUM
Subordinated Debt & Equity	$13.163bn
Direct Lending	$15.281bn
Special Situations	$0.280bn
Commercial Real Estate	$5.756bn
Infrastructure Equity	$0.548bn
Strategic Equity	$3.196bn
PE Fund of Funds	$1.017bn
Liquid Credit Strategies	$18.414bn
Total	**$56.655bn**

PSERS and ICG have an established partnership dating back to 2011, and ICG-managed investments represent $563.2[1] million of total exposure (NAV plus unfunded commitments) across the Private Credit portfolio as of December 31, 2020. To date, PSERS has committed ~ €539 million across three ICG-managed funds and three co-investments. Listed below are PSERS' prior ICG fund commitments:

[1]Based on exchange rate of 1.2225 EUR/USD as of December 31, 2020 (Source: Burgiss)

- €200 million ICG Europe Fund V, SCSp in 2011 ("Fund V")
- €150 million ICG Europe Fund VI, SCSp in 2015 ("Fund VI")
- €150 million ICG Europe Fund VII, SCSp in 2018 ("Fund VII")

Investment Strategy

The Fund will target locally sourced, directly originated, and privately negotiated subordinated debt/intermediate capital investments in European mid-market companies (€200M - €3B total enterprise value) and will invest flexibly across the capital structure in a range of instruments. ICG expects to generate investment opportunities for the Fund through the local relationships and network of its investment executives. These executives operate from seven cities across Europe and have built relationships with European mid-market sponsors, management teams, family owners, and other stakeholders. This direct approach to investment origination enables the Fund to negotiate bespoke investment terms to meet both the financing needs of such stakeholders and the Fund's investment criteria. The Fund's potential investment universe encompasses a broad range of Corporate transactions in European mid-market companies, Opportunity transactions in volatile market environments, as well as Sponsored LBO deals in specific circumstances.

The Fund's three primary investment types (and anticipated exposure) are summarized below:

Investment Type (Anticipated Exposure)	Description
Corporate (30% - 80%)	Situations in which the Fund will seek to support management-led transactions, capital reorganizations around family owners or other key stakeholders, or the continued organic and inorganic development of mature mid-market companies.
Sponsored LBO (20% - 50%)	Situations in which the Fund will seek to support private equity sponsors in financing mid-market LBOs. ICG expects the Fund to invest in LBO transactions where it has comparative advantage, such as a local relationship with a key stakeholder or where ICG believes that it has specific expertise relevant to the proposed investment. The Fund will avoid investments which do not offer appropriate legal protections and governance rights and will not generally invest in transactions that are part of a syndication.
Opportunity	Situations in which the Fund will seek to invest primarily in companies that are known to ICG and that are performing well but are impeded by their capital structures. This pillar of the ICG European strategy is designed

(20% - 50%)	to take advantage of significant levels of dislocation and volatility in the market and, in such events, should benefit that vintage year performance. The Fund intends to support these companies by providing capital in support of recapitalizations led by private equity sponsors or lenders, providing liquidity for key stakeholders, or acquiring positions from forced sellers,

ICG seeks to invest in profitable businesses that are market leaders in their respective sectors, which are highly cash generative and demonstrate stable performance, and in which there is a realistic exit opportunity within three to five years. ICG's European investment team has broad geographical and sector experience and will seek to build a diversified portfolio (15 – 25 investments) both in terms of geographic and sector exposure. ICG recognizes that most businesses have a degree of cyclicality but will typically seek to limit the Fund's exposure to inherently cyclical industries. ICG is agnostic to geography within key European markets but has historically been overweight in the UK and France. ICG always seeks board representation and, even in debt-only investments, expects to be granted up to two board seats (usually a Directorship and an observer seat) to allow it to actively monitor and exert influence over the business through the investment and exit process.

Exits will be achieved either through the refinancing of debt in connection with a change of control, recapitalization, or through the scheduled repayment of debt by the company. ICG will play an active role with management in taking the company to an exit. For Sponsored LBOs, exit strategies fall into three broad categories: secondary buyouts, trade sales, and initial public offerings. In these investments, the method of divestment is decided by the private equity owner of the company and will be based on market conditions at the time.

Market Opportunity:

ICG's three-pillar European investment strategy allows it to deploy consistently across market cycles, as attractive Corporate, Opportunity, and Sponsored LBO transactions are expected to arise at varying points in the cycle (see *Investment Strategy*). Overall, the current market environment is particularly attractive for Fund VIII. Due to the impact of the Covid-19 pandemic, the investment landscape has changed dramatically and ICG is currently experiencing record levels of deal flow with good visibility to strong deployment at the outset of the Fund's investment period. The anticipated market opportunity for each of ICG's three investments pillars is summarized below.

Corporate Transactions:

Corporate deals are self-originated, proprietary transactions, where ICG partners with management teams, founders, entrepreneurs, and family owners. The volatility of the Covid-19 pandemic has created greater uncertainty of execution, resulting in an increased desire to work with proven investment partners like ICG. Motivations for engaging in Corporate transactions include:

- Increasingly complex financial needs as companies seek a bespoke capital solution to meet the volatile impact of the Covid-19 pandemic;
- The need for capital to support both organic and inorganic growth through M&A transactions at a time when bank credit appetite is tightening as a result of the Covid-19 pandemic;
- Concerns over future tax changes to rebalance government budgets; and,
- The pressures and attrition of managing companies through the Covid-19 pandemic driving family-owned companies to de-risk.

Through ICG's local office footprint, deal teams build close relationships with key stakeholders in their regions in order to be well placed for potential transactions. For Corporate transactions, ICG is also seeing an increasing number of larger transactions. This trend is being driven by a variety of factors including higher valuations in performing sectors, increasing prevalence of alternative investment solutions, and continued growth of European mid-market companies. This deal flow is expected to generate significant Corporate deal opportunities for Fund VIII.

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Opportunity Transactions

ICG has a systematic approach to sourcing opportunistic deals and significant experience in Opportunity transactions. Since 2006, ICG has invested more than €1.3 billion in Opportunity deals (as per the investment type descriptions above), and the Covid-19 crisis is likely to create further Opportunity transactions for Fund VIII. Due to the unprecedented fiscal and monetary support for businesses in Europe, financial distress is likely to be drawn out and more focused on sectors that have borne the brunt of the impact. As illustrated by the chart below, European banks continue to reduce their participation in credit markets. Once government support measures end, there is likely to be significant opportunity for private capital providers to invest in Opportunistic transactions within stressed businesses. Covid-19-impacted sectors are also exhibiting accelerating consolidation, increasing the need for capital to fund M&A activity. This market dynamic is likely to create further opportunities during the Fund VIII investment period.

Euro area bank credit as % of total credit to private non-financial sector

Source: Bank for International Settlements as of June 2020

Sponsored LBO Transactions

European private equity funds have experienced substantial inflows in recent years, according to Preqin, and these inflows have resulted in record levels of dry powder as of December 31, 2020 (greater than $218 billion). ICG expects this backdrop to support demand for subordinated debt and structured equity solutions to help sustain Sponsored LBOs involving European mid-market and upper mid-market companies.

A fall in investment activity following the onset of Covid-19 has created increased pressure on sponsors to deploy capital and realize investments in older vintages. This is expected to accelerate LBO activity in 2021, with increased demand for flexible capital to support acquisitions. In addition, deal sizes continue to increase in performing sectors, driving demand for subordinated instruments within capital structures.

Investment Structure:

Opportunity and Sponsored LBO transactions generally include minimal (or no) equity investment instruments, while Corporate deals typically have a larger proportion of equity. The composition of ICG's investment also will vary according to idiosyncratic deal factors, jurisdiction, and tax structuring. For example, it is sometimes preferable to structure mezzanine instruments as preferred equity. Similarly, many equity instruments in which ICG invests have debt-like characteristics such as an agreed money multiple (MoC) and IRR and are attached to the debt instruments such that an exit on the debt instruments triggers an exit of the equity instruments.

The strategy will not utilize leverage at the fund-level. However, ICG intends to utilize a bridge facility to finance the acquisition of new investments and manage working capital demands including mark to market FX movements through its hedging program. The bridge facility will allow ICG to execute deal funding within a shorter timetable and will allow Limited Partners to benefit from a more streamlined capital call and distribution profile.

Fund VIII will be denominated in Euro and the majority of its investments will also be Euro-denominated. However, investments may also be denominated in other Western European currencies. As a result, returns on non-Euro investments may be affected by currency exchange rate fluctuations. ICG intends to hedge the Fund's exposure to foreign currency fluctuations on its investments using fixed forwards or swap arrangements with approved counterparties. The policy is intended to hedge only the principal invested, not routine interest or investment gains.

Investment Instruments

The Fund will have the ability to invest flexibly throughout the capital structure of portfolio companies in a range of debt and equity-like instruments. ICG expects that the Fund will invest in a blend of senior and subordinated debt, preferred equity, and other equity-like instruments, structured to deliver both a significant contractual return and an attractive overall risk-adjusted return for investors.

Investment Team

Day-to-day investment activities of the Fund will be overseen by 28 local investment professionals, operating from ICG's offices in Amsterdam, Frankfurt, London (headquarters), Luxembourg, Madrid, Paris, and Stockholm. The Fund's European investment team all report via country heads to Benoît Durteste, ICG's Chief Executive Officer and Chief Investment Officer. The Fund's investment activities are led by a seven-member investment committee ("IC") comprised of five senior members of ICG's European deal team, with an average of 27 years of experience and two non-voting members representing the value enhancement and Responsible Investing teams. Unanimous consent of the committee is required for investment approval.

Portfolio Fit

The Fund will be allocated to the Mezzanine bucket of PSERS' private credit portfolio. The table below summarizes PSERS' projected exposure inclusive of a recommended €200 million commitment to ICG VIII, as of December 31, 2020:

Investment Strategy ($M)	NAV	%	Unfunded	%	Total Exposure	%
Distressed & Special Situations	$2,576.1	43.9%	$1,115.8	34.6%	$3,691.9	40.6%
Direct Lending	$1,401.4	23.9%	$831.0	25.7%	$2,232.4	24.5%
Mezzanine	$569.5	9.7%	$479.9	14.9%	$1,049.4	11.5%
Real Estate Credit	$311.4	5.3%	$623.6	19.3%	$935.0	10.3%
Structured Credit	$537.0	9.1%	$0.0	0.0%	$537.0	5.9%
Real Assets Credit	$362.6	6.2%	$76.7	2.4%	$439.3	4.8%
Specialty Finance	$114.5	1.9%	$101.1	3.1%	$215.6	2.4%
Total	**$5,869.1**	**100.0%**	**$3,228.2**	**100.0%**	**$9,097.4**	**100.0%**

(1) Includes post Q4'2020 pending/closed commitments
(2) Values may be slightly off due to rounding
(3) Euro-denominated investments converted to USD based on exchange rate of 1.2225 EUR/USD as of December 31, 2020 (Source: Burgiss)

A commitment to the Fund allows PSERS to continue its relationship with a high-conviction, core manager. The Fund's return target meets the return objective for PSERS' Private Credit portfolio over the life of the investment. On top of this, ICG has been one of the strongest contributors to the private credit portfolio over the one, three, and five-year periods.

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Investment Highlights

- Stable and Experienced Senior Investment Team
- Strong Historical Track Record / Low Loss Rate
- PSERS' Strong Historical Performance
- PSERS' Strong Co-Investment Performance
- Flexible Investment Strategy / Downside Protected Structures
- Alignment of Interest / Significant GP Commitment
- Focus on ESG

Investment / Risk Considerations

- Larger Fund Size
- Public Ownership
- Competition
- Borrower Default Risk

Investment Committee Disclosure

Relationship with Hamilton Lane	Eighteen discretionary Hamilton Lane clients and commingled products have committed an aggregate $670.2 million across prior ICG funds. Additionally, 5 discretionary Hamilton Lane clients and commingled products have made co-investments alongside ICG totaling approximately $57.8 million. Preliminary Hamilton Lane allocation data as of April 13, 2021, indicates that 6 discretionary Hamilton Lane clients and comingled products plan to commit an aggregate $190 million to Fund VIII. Please note that this information is subject to change pending client by client discussions at Allocation Committee and is available to PSERS upon request.
Introduction Source	PSERS has prior investments with the 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 ~€539 million across three ICG-managed funds and three co-investments.
Litigation Disclosure	ICG 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	4/29/20