PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Sixth Street Lending Partners

Private Credit Commitment

Allocation Implementation Committee
Approval Date: 12/16/2022

Executive Summary

James F. Del Gaudio, Director; Sean T. Sarraf, Senior Investment Professional, and Aksia, LLC ("Aksia") recommend that the Board commit an amount not to exceed $250 million, plus reasonable normal investment expenses, to Sixth Street Lending Partners (the "Fund" or "SSLP") and/or related investment vehicles.

Fund Name	Sixth Street Lending Partners
Firm Name	Sixth Street Partners, LLC (the "Firm" or "Sixth Street")
Investment Advisor	Sixth Street Lending Partners Advisers, LLC (the "Adviser")
Target Fund Size / Hard Cap	$4 billion / No formal hard cap (estimated $6.5 billion)
Recommended Commitment Amount	$250 million
Existing Relationship	Yes
Asset Class / Sub Asset Class	Private Credit / Direct Lending
Investment Office Professionals Due Diligence Team ("IOP")	Sean T. Sarraf, Senior Investment Professional Michael J. Severance, Junior Investment Professional James F. Del Gaudio, Director
Investment Office Oversight	James F. Del Gaudio, Director Sean T. Sarraf, Senior Investment Professional Robert E. Little, Senior Portfolio Manager Michael J. Severance, Junior Investment Professional
External Consultant Oversight	Aksia, LLC
ESG Policy (Y / N)	Yes

Firm Overview

Sixth Street Partners, LLC ("Sixth Street" or "Firm") is a global investment manager with over $60 billion in assets under management as of June 30, 2022. Sixth Street was co-founded in 2009 by Alan Waxman (Chief Executive Officer and Chief Investment Officer) and is currently managed by 27 Partners and employs ~420 professionals with offices in San Francisco, New York, Houston, Austin, Dallas, Boston, London, Hong Kong, and Luxembourg. Prior to forming Sixth Street, Mr. Waxman was the Co-Head and Chairman of the largest internal proprietary investment group at Goldman Sachs, then known as the Americas Special Situations Group, where he also worked alongside several other Sixth Street Partners. With a culture designed for cross-platform collaboration at scale, Sixth Street uses its long-term oriented, highly flexible capital base to invest across industries, geographies, capital structures, and asset classes.

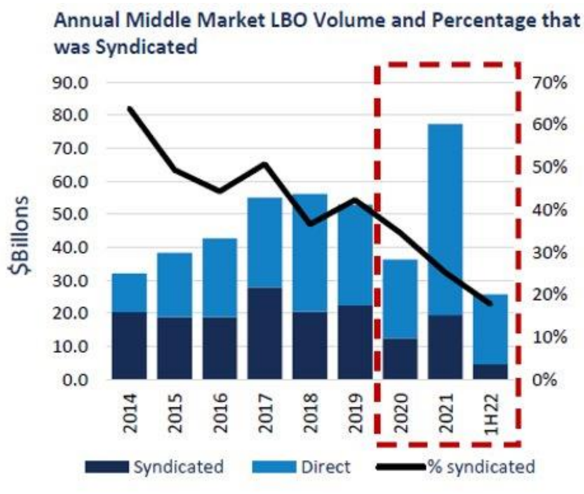
Sixth Street is targeting $4 billion in capital commitments for SSLP and seeks to generate attractive risk-adjusted returns by investing primarily in U.S.-domiciled upper middle-market companies through direct origination of senior-secured loans. Sixth Street has extensive experience in direct loan origination. Since 2011, the Firm has invested ~$18.9 billion across over 250 direct lending investments while generating a 14.3% / 1.22x unlevered gross IRR and MoC, respectively. Over that period, the Firm experienced minimal credit losses with a total annualized loss rate of 0.03%. The Fund has elected to be treated as a business development company ("BDC") under the U.S. Investment Company Act of 1940. The U.S. Congress created the BDC framework in 1980 with a goal of increasing credit availability for small and medium sized businesses in the United States. SSLP is managed by Sixth Street Lending Partners Advisers, LLC ("Adviser"), a wholly owned subsidiary of Sixth Street. The Firm previously launched a BDC in 2010, Sixth Street Specialty Lending, Inc. ("TSLX"), which focuses on lower middle-market lending. TSLX went public in 2014 (NYSE: TSLX) and has traded at an average premium of 29% (as of August 31, 2022) relative to BDC peers given strong fundamental performance and a track record of capital preservation.

PSERS and Sixth Street have a long-standing partnership dating back to the Firm's inception. Sixth Street represents PSERS' largest total exposure (NAV plus unfunded commitments) within the Private Credit portfolio at ~$1.5 billion as of June 30, 2022. PSERS previously has committed ~$1.7 billion across eight Sixth Street-managed funds and one co-investment. For more investment details including historical commitment amounts and investment performance please see the table below (page 5, "*PSERS Performance & History*").

Market Opportunity

As the direct lending landscape continues to evolve, Sixth Street has identified a gap in the upper middle-market where opportunities have emerged to lend to larger companies that would typically seek financing from the broadly syndicated bank loan market. For background, a broadly syndicated loan transaction usually involves a lead agent (typically a bank) which underwrites a loan to a borrower and then syndicates that loan to a group of investors. The loan syndication is made on a best-efforts basis and, consequently, if not enough investors can be found, the bank is left holding any amount that cannot be syndicated, commonly referred to as a "hung syndication."

Due to recent macro-economic uncertainty, U.S. and European banks have had difficulty syndicating loans to investors and as a result have an estimated $42 billion[1] in hung syndications on their balance sheets through H1'22. Because of this backlog, banks have largely stepped away from underwriting new loan syndications, leaving space for private direct lenders to fill the gap. These developments have accelerated an ongoing secular trend with non-bank lenders (such as private credit investors) capturing market share from the broadly syndicated bank loan market, as upper middle market borrowers are turning to direct lenders to anchor larger loan commitments given the challenging market conditions (i.e., hung syndications). Relative to bank loan syndications, private lenders can provide greater certainty to close for borrowers, have fewer regulatory constraints, and can provide more customizable financing structures. Due to these factors, SSLP is benefitting from a large and diverse origination pipeline characterized by wider spreads, higher origination fees, and better lender protections compared to what was historically available in the upper middle-market.
[1]Source: Bloomberg



Source: Refinitiv LPC

While broadly syndicated loan markets should eventually rebound and continue to co-exist alongside private direct lending, a syndicated loan solution is often not an option for certain borrowers due to complexity, timing, or other needs of the borrower that can't be met with broadly syndicated loans. An example of this would be recurring revenue deals where a growth company requires a delayed draw term loan as a component of their debt solution - which is a feature broadly syndicated loans do not offer. Sixth Street tends to focus on specific themes in which several of its peers do not actively participate, for example, companies where there is potentially more complexity and/or where a specific skill set is required such as underwriting asset-based lending deals.

To summarize, demand for private credit solutions in the upper middle market has increased substantially in recent months, allowing SSLP to originate higher spread loans with better creditor protections than those available in the broadly syndicated loan market. Limited competition in this area of the market will allow the Fund to be disciplined in its credit selection while commanding premium economics and enhanced creditor protections. As a result of this supply / demand imbalance, SSLP is experiencing a robust active pipeline comprised of over $6 billion of loan opportunities as of November 2022.

Fund Investment Strategy

As mentioned previously, SSLP will seek to generate current income and long-term capital appreciation by investing primarily in U.S.-domiciled upper middle-market companies through direct originations of senior secured loans, with the ability to opportunistically invest in Europe (no more than 30% of total assets). For SSLP, the phrase "upper middle-market companies" refers to companies with annual EBITDA of greater than $100 million, or with an implied enterprise value exceeding $750 million.

SSLP will seek to create a portfolio of primarily senior secured loans, investing approximately $200 million to $500 million per loan, where average position size is expected to be less than 5% of the total portfolio at fair value. Consistent with its focus on capital preservation, the Fund will seek to structure investments with customized loan documentation, strong covenant packages, and mechanisms to compensate the Fund for incremental risk when a borrower underperforms, as well as call protection features to increase duration when a borrower outperforms. Covenant packages may include affirmative and negative covenants, default penalties, lien protection, change of control provisions, and financial covenants that require issuers to reduce leverage over time, thereby enhancing credit quality. Generally, loan documentation is designed to force a discussion with a borrower in the event of deviations from budgeted performance, allowing Sixth Street to re-evaluate risk when appropriate.

SSLP will focus on financing companies that exhibit the following attributes: (i) highly cash flow generative, stable companies in defensible industries with diversity across customers and end markets, (ii) businesses in industries that are experiencing secular growth with 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).

The Fund will employ a thematic sourcing approach to identify less competitive areas of the market where favorable deal dynamics exist and to avoid transactions where there is significant competition. Consistent with the broader Sixth Street platform, SSLP will rotate across themes as market dynamics change. The investment team also will incubate new themes through a combination of top-down and bottom-up work and may recycle themes over time. Examples of existing themes include business-to-business payments and asset-based lending.

As discussed in the Firm Overview section, SSLP has elected to be treated as a BDC under the U.S. Investment Company Act of 1940. From an investment perspective, there is virtually no difference implementing the strategy through a BDC compared to a limited partnership. However, the BDC conveys certain structural benefits to investors. For example, a BDC provides enhanced transparency via required public filings (e.g., 10-Qs, 10-Ks, 8-Ks), including quarterly reporting of investments at fair value. Additionally, BDCs are attractive for certain taxable investors given the avoidance of double-taxation due to the pass-through treatment of investment income. The BDC structure also provides upside optionality for SSLP investors in the scenario where the Fund goes public. Per Sixth Street, the Fund will only pursue an IPO if market conditions are favorable, suggesting that SSLP would trade at a premium to book value. To the extent SSLP commands a premium-to-book value, private investors would benefit from immediate capital appreciation upon conversion to publicly traded shares and would not have to pay incentive fees on such capital appreciation. In an IPO scenario where the Fund goes public at a premium-to-book value, Sixth Street expects to generate high-teens net returns; even in a non-IPO scenario the targeted return is still attractive, with Sixth Street projecting the Fund to generate low double-digit net returns.

PSERS History & Performance

Fund	Vintage	Original Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
Opportunities		**$650.0**	**$519.1**	**$487.8**	**$200.0**	**14.6%**	**1.32x**
Opps NPL (A), L.P.	*2011*	*$100.0*	*$62.4*	*$104.5*	*$1.1*	*18.5%*	*1.69x*
Sixth Street Opportunities Partners II (A), L.P.	*2011*	*$100.0*	*$69.7*	*$117.6*	*$4.5*	*16.0%*	*1.75x*
Sixth Street Opportunities Partners III (A), L.P.	*2014*	*$150.0*	*$187.1*	*$194.1*	*$39.7*	*10.1%*	*1.25x*
Sixth Street Opportunities Partners IV (A), L.P.	*2018*	*$150.0*	*$174.3*	*$71.6*	*$130.6*	*13.7%*	*1.16x*
Sixth Street Opportunities Partners V (A), L.P.	*2022*	*$150.0*	*$25.6*	*$0.0*	*$24.1*	*NM*	*NM*
TAO		**$700.0**	**$1,059.0**	**$796.8**	**$493.8**	**9.9%**	**1.22x**
PSERS TAO Partners Parallel Fund, L.P. - (TAO 2.0)	*2014*	*$250.0*	*$517.4*	*$432.8*	*$200.7*	*9.2%*	*1.22x*
PSERS TAO Partners Parallel Fund, L.P. - (TAO 3.0)	*2015*	*$250.0*	*$413.6*	*$316.2*	*$190.6*	*10.0%*	*1.23x*
PSERS TAO Partners Parallel Fund, L.P. - (TAO Contingent)	*2018*	*$200.0*	*$128.1*	*$47.8*	*$102.4*	*17.7%*	*1.17x*
Sixth Street Fundamental Strategies Partners (A), L.P.	**2020**	**$200.0**	**$110.0**	**$20.4**	**$89.1**	**-0.8%**	**1.00x**
Sixth Street Specialty Lending Europe II, L.P.	**2020**	**$125.0**	**$55.3**	**$23.2**	**$35.5**	**9.7%**	**1.06x**
Acacia Coinvest, L.P.	**2021**	**$45.3**	**$45.3**	**$0.0**	**$51.9**	**18.5%**	**1.14x**
PSERS Total		***$1,720.3***	***$1,788.8***	***$1,328.3***	***$870.3***	***11.6%***	***1.23x***

Note: Values may not sum due to rounding. Data from Burgiss as of 6/30/2022.

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 $250 million commitment, as of June 30, 2022:

			Pending Additional Commitments		
Investment Strategy ($M)	**NAV**	**Unfunded**	**Additional Commitments***	**Pro-Forma Total Exposure**	**%**
Distressed & Special Situations	$2,699.4	$1,339.3	$0.0	$4,038.7	47.8%
Direct Lending	$1,304.8	$615.5	$265.0	$2,185.4	25.9%
Mezzanine	$539.7	$188.8	$0.0	$728.5	8.6%
Real Estate Credit	$312.7	$384.8	$0.0	$697.5	8.3%
Real Assets Credit	$428.0	$75.6	$0.0	$503.7	6.0%
Specialty Finance	$163.6	$129.1	$0.0	$292.7	3.5%
Total Portfolio	**$5,445.9**	**$2,733.2**	**$265.0**	**$8,444.1**	**100%**

Note: Values may not sum due to rounding. Currency hedge not shown. Data from Burgiss as of 6/30/2022.
** Additional commitments inclusive of a $15 million co-investment approved by the Asset Implementation Committee in July 2022*

A commitment to SSLP will increase PSERS' private credit portfolio exposure to direct lending, specifically to U.S. upper middle-market borrowers, where the portfolio is currently under allocated. Furthermore, SSLP expresses IOP conviction in the secular shift benefiting private lenders in the upper middle-market, as well as the cyclical and enhanced opportunity set resulting from a recent decline in broadly syndicated loan originations. Additionally, given the BDC structure and potential for public listing, the Fund contains an embedded upside option, with the ability to achieve high-teens net returns on a diversified portfolio of senior secured loans.

Investment Highlights

- Strong Track Record and Deep Experience in Direct Lending
- Strong Performance of Predecessor Vehicle (TSLX)
- Attractive Current Market Opportunity
- Upside Optionality / IPO Case
- PSERS Overall Strong Track Record with Sixth Street

Investment / Risk Considerations

- BDC Structure
- Borrower Default Risk
- Liquidation Considerations in an IPO Scenario
- Sourcing in the Upper Middle-Market
- Overall Exposure to Sixth Street
- Allocation of Investment Opportunities

Investment Committee Disclosure

Relationship with Aksia:	Eleven Aksia clients have committed an aggregate $6.7 billion across prior Sixth Street funds on both a discretionary and non-discretionary basis. As of November 2022, there were no other Aksia clients committed to Sixth Street Lending Partners. Please note that this information, which is available to PSERS upon request, is subject to change pending further review and decision making between Aksia and its clients.
Introduction Source:	Existing Relationship
Compliance with Placement Agent Policy:	As confirmed by PSERS' Office of Chief Counsel on December 13,2022, this investment complies with the Board's policy.
PA Political Contributions:	None Disclosed.
PA Presence:	Yes
Potential Conflicts:	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
Litigation Disclosure:	Sixth Street receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business, and to the best of Sixth Street's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on Sixth Street or the Fund.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	No.
Certification of Due Diligence Costs:	IOP certifies that PSERS paid all travel costs, if any, and was not reimbursed for the travel costs related to due diligence of the Fund.