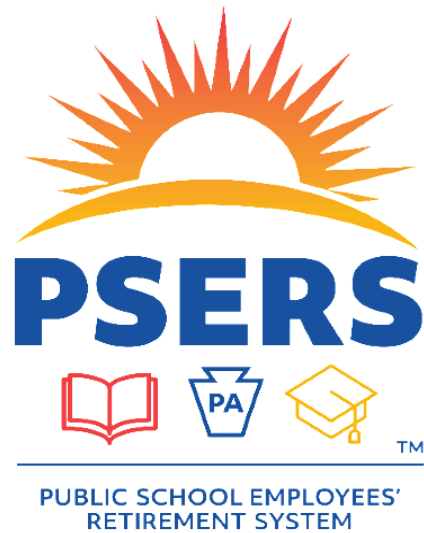


PSERB Resolution 2024-87
Re: Sixth Street Specialty Lending Europe III (A), L.P.
December 20, 2024

RESOLVED, that the Public School Employees' Retirement Board (the "Board") accepts the recommendation of the Investment Committee and commits an amount not to exceed \$165 million plus reasonable, normal investment expenses, to Sixth Street Specialty Lending Europe III, (A) L.P. and/or related investment vehicles in accordance with the recommendation of Sean T. Sarraf, Portfolio Manager and Aksia, LLC.

The final terms and conditions of the investment are subject to legal due diligence and must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on, or by a memo to that effect appended to, the implementing investment contracts.



Sixth Street Specialty Lending Europe III (A), L.P. Private Credit Recommendation

Sean Sarraf, CFA, CAIA
Portfolio Manager

Michael Severance, CAIA
Intermediate Investment
Professional

December 2024

Today's Presentation

Sixth Street Specialty Lending Europe III, L.P (“SLE III”, “Fund III”, or the “Fund”)

Main Presentation

1. Asset Class Considerations
 - *Recommendation is consistent with PSERS’ Strategic Asset Allocation (SAA) and current year commitment planning*
2. Recommendation Overview
 - *PSERS IO and Aksia recommend committing \$165 million to SLE III*
3. Strategy & Expertise
 - *Demonstrated experience in European Direct Lending*
4. Investment Considerations
 - *The Fund is expected to face risks consistent with European direct lending investments, and staff believes that Sixth Street has identified appropriate mitigants to those risks.*
5. Investment Highlights
 - *Strong performance, established European presence, and Downside protection*

Appendix

- Investment Committee Disclosure
- Private Credit Dashboard

1. Asset Class Considerations

Recommendation is consistent with PSERS Strategic Asset Allocation (SAA) and most recent pacing analysis

PSERS SAA and Pacing

1. PSERS SAA has established long-term targets of 7.0% to Private Credit.
2. The current Private Credit allocation is within rebalancing ranges (+/- 2%).
3. PSERS and Aksia’s latest pacing analysis suggests \$550M – \$750M of commitments annually beginning in 2024 to maintain our target exposure to Private Credit (assuming prior SAA target of 6%).
4. This analysis is revisited frequently based on the actual performance of the Private Credit allocation and the broader PSERS portfolio.

SAA Allocation	
Private Credit Target	7.0%
Private Credit Actual	7.3% ¹
Pacing Budget for 2024	
Pacing Budget Range	\$550 - \$750M
Primary Investments	
2024 YTD Commitment	\$336M ³
Today’s Recommendations	\$165M
Co-Investments	
2024 YTD Commitment	\$30M
Total Primary and Co-Investments	\$531M ³
Remaining Budget ²	\$119M
Est. Remaining Primary Fund Recommendations	\$0M
Expected to be in Target Budget Range for 2024?	Yes
Est. Co-Investment Capacity	\$277M ⁴

1. Private Credit Actual taken from Verus 2024 2Q – Total Fund Report

2. Remaining to the mid-point of the pacing budget

3. Based on exchange rate of 1.071612 EUR/USD as of June 30, 2024, Source: Burgiss

4. Co-Investment Capacity as of 6/30/2024.

2. Recommendation Overview

PSERS IO and Aksia recommend committing \$165 million to SLE III

Key Term	
Fund Name	Sixth Street Specialty Lending Europe III, L.P
Firm Name	Sixth Street Partners
Net Target Return	11% - 14%
Investment Professionals / Employees	230 / 560
Strategy Invested Capital (SLE fund series)	€4.6B
Target Fund Size	€2.0 – €2.5 billion
Recommended Commitment Amount	\$165 million
GP Commitment	1.5% of total Fund commitments
PSERS Existing Relationship	Yes
Notable Investment Committee Disclosure ¹	None

3. SLE III Strategy & Expertise

Demonstrated expertise in the structured solutions investing in the European middle market

Downside Protection: The SLE strategy prioritizes capital preservation, concentrating on the ability to quantitatively underwrite to the downside. In structuring transactions, the Fund will use customized loan documentation with an emphasis on intercreditor dynamics. SLE III also seeks to avoid cyclical businesses and will concentrate investment activity around first dollar risk (i.e. top of the capital structure).

Thematic Sourcing: Sixth Street generally avoids lending to borrowers in cyclical industries and will employ thematic sourcing to guide origination to the most attractive relative value. The SLE team will incubate new themes through a combination of top-down and bottom-up analysis and may recycle themes over time.

Flexibility to Scale: SLE III will be able to invest in transactions requiring commitments as small as €20 million or €30 million. Equally, SLE III will also have the ability to co-invest in certain opportunities with other Sixth Street funds, enabling the Fund to speak for larger opportunities requiring a €500 million commitment or greater. This flexibility broadens the Fund's investment universe and removes sized-based constraints which many competitor funds must manage to.

4. Investment Considerations

The Fund is expected to face risks consistent with European direct lending investments, and staff believes that Sixth Street has identified appropriate mitigants to those risks.

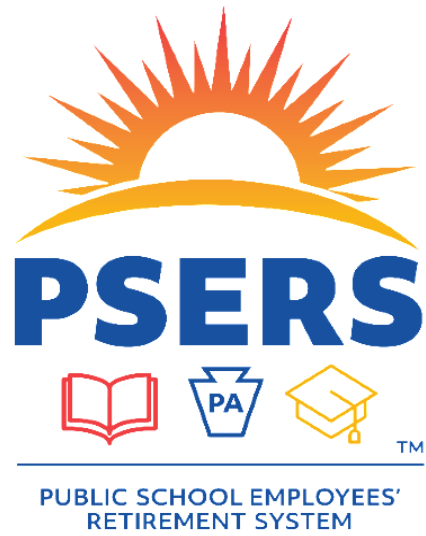
Risk	Detail	Mitigating Factors
Borrower Default Risk	As with any credit-related investment, a key risk to the Fund is default risk, or the risk that underlying borrowers fail to make required principal or interest payments, which could impair returns up to and including a complete loss of principal.	<p><i>Sixth Street has been able to maintain a loss rate of 0.0% in SLE I and SLE II since inception, and a 0.02% annual loss rate across all Sixth Street-managed funds since inception.</i></p> <p><i>Moreover, the majority of investments across SLE I / II have at least two covenants, including financial maintenance covenants, allowing Sixth Street to force a discussion with the borrower given deviation from the business plan.</i></p>
Competitive Market Environment	Since the great financial crisis, European direct lending has experienced a noteworthy increase in capital formation, and growth in lending activities.	<p><i>The SLE team prefers to source thematically, which guides investment decisions toward areas of the market with the most favorable risk / reward dynamics.</i></p> <p><i>Secondly, borrowers are motivated to work with Sixth Street for reasons beyond cost of capital considerations, and typically prioritize timing and certainty of execution over pricing.</i></p>
Allocation of Investment Opportunities	SLE III will have the ability to co-invest alongside other Sixth Street funds. When allocation of investments are shared across multiple vehicles there is a risk that deal flow will be consumed by non-Fund related entities.	<p><i>Sixth Street has a well-defined allocation policy which prioritizes SLE funds ahead of other mandates, allowing the Fund to receive first right for allocations within European Direct Lending up to the preferred position size (4% on average), prior to allocating to other investment vehicles.</i></p>

Note: Please see Aksia and PSERS confidential memos for additional discussion on risks and mitigants

5. Investment Highlights

Strong performance, established European presence, and Downside protection

Highlight	Detail
Established Direct Lending Platform	Sixth Street has deployed \$24.5 billion in direct lending investments since inception (including over €5.0 billion in European direct lending investments) which have collectively generated an unlevered net IRR / net MoC of 12.1% / 1.29x, respectively, on current and realized investments (assuming undiscounted fee loads). To-date, there have been zero losses within the Firm’s European Direct Lending strategy.
Attractive Spread Levels	Sixth Street has consistently originated loans at attractive spreads over European syndicated loans, with Fund II average spread levels exceeding 700bps. Moreover, the weighted average LTV across SLE II stands at 29%, which is attractive relative to a typical bank loan capital structure (~40-50% LTV).
PSERS’ Strong Performance with Sixth Street	PSERS committed \$125 million to SLE II in 2021. As of March 2024, Fund II was generating a 15.1% net IRR, 1.15x net MoC, and DPI of 0.47x. Fund II has also performed well from a relative perspective generating a Direct Alpha / KS PME of 5.9% / 1.05x, respectively over the same time period



Appendix

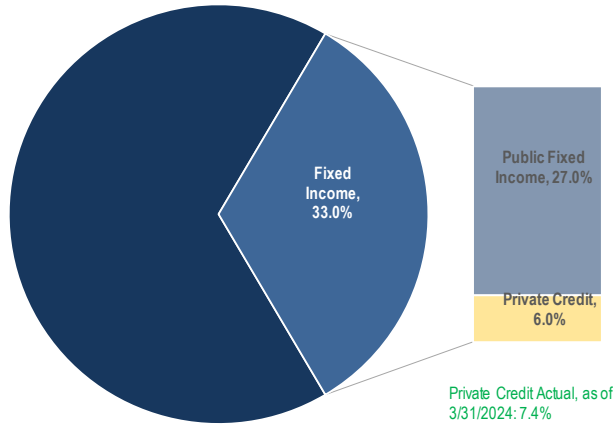
Investment Committee Disclosure

Detail on PA presence and political contributions included in confidential memo

Disclosure	Response
Relationship with Aksia	As of March 31, 2024, eleven (11) current Aksia advisory and investment management clients have made total aggregate subscriptions and commitments of \$6.5 billion across investments managed by Sixth Street Advisers LLC, including ten (10) current advisory accounts (\$6.4 billion) and two (2) current investment management accounts (\$97.2 million). As of August 23, 2024, there are no other Aksia clients considering a commitment to Sixth Street Specialty Lending Europe III.
Introduction Source	PSERS IOP
Compliance with Placement Agent Policy	As confirmed by PSERS' Office of Chief Counsel on June 24, 2024, this investment complies with the Public School Employees' Retirement Board Placement Agent Policy.
PA Political Contributions	None Disclosed
PA Presence	Yes, see Confidential Memo.
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. PSERS is not currently aware of any litigation which has or may have a material effect on the Fund.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	Yes, Sixth Street reimbursed PSERS in 2023 for LPAC-related travel expenses for funds whose investment contracts were entered into prior to July 2021.
Certification of 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.

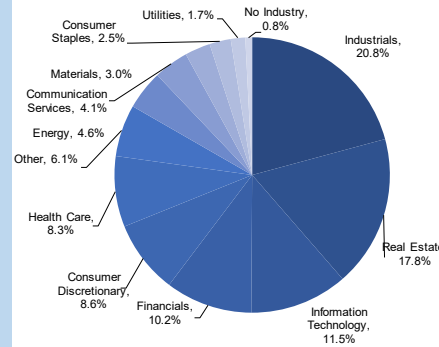
Private Credit Portfolio *as of March 31, 2024*

Target Allocation to Private Credit
as of 3/31/2024

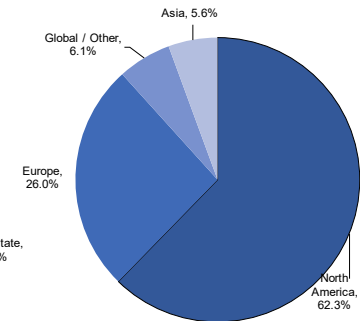


Note: 7.4% figure sourced from Verus 2024 1Q – Total Fund Report

Sector Diversification



Geography



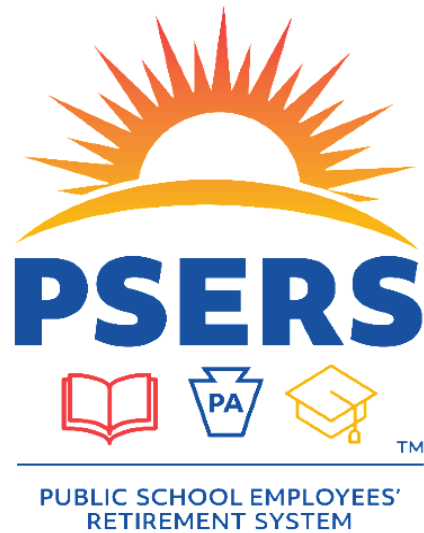
Recent Fund Deployment (\$M)

2024 Budget Items	
ICG Mid-Market II*	€ 150.0
ACORE Opportunistic Credit II, L.P.*	\$175.0

*Board Approved

PSERS Private Credit Portfolio Performance

	Time-Weighted					Dollar-Weighted		
	1-YR	3-YR	5-YR	10-YR	ITD	KS PME	Direct Alpha	ITD
Direct Lending	11.5%	9.2%	8.5%	9.2%	8.1%	1.06x	1.9%	9.9%
Mezzanine	12.0%	8.8%	12.2%	10.2%	11.2%	1.14x	4.1%	10.8%
Distressed & Special Situations	8.1%	7.4%	7.2%	7.1%	7.1%	1.01x	0.3%	8.4%
Specialty Finance	9.7%	10.3%	22.5%	13.7%	13.1%	1.02x	1.2%	9.4%
Real Estate Credit	7.3%	6.8%	0.6%	1.8%	1.7%	0.89x	-5.2%	2.8%
Real Assets Credit	20.3%	22.2%	9.9%	4.0%	5.0%	0.89x	-3.0%	3.3%
Total Portfolio	10.2%	9.5%	8.1%	7.4%	7.4%	1.02x	0.6%	8.5%
Benchmark	14.7%	8.1%	7.6%	6.6%	7.0%			



Sixth Street Specialty Lending Europe III, L.P Private Credit Recommendation

Sean Sarraf, CFA, CAIA
Portfolio Manager

Michael Severance, CAIA
Intermediate Investment
Professional

December 2024

Manager Recommendation Memo

August 30, 2024

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 III

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, a commitment of up to \$165 million to Sixth Street Specialty Lending Europe III ("SLE III" or the "Fund").

Sixth Street Advisors LLC ("Sixth Street" or the "GP", formerly known as TSSP) was established as a separate subsidiary of TPG's platform in 2009 by Alan Waxman and other former senior colleagues from Goldman Sachs' U.S. Special Situations group. Sixth Street formally separated from TPG in May 2020, although TPG retains a passive minority interest in Sixth Street. Blue Owl Capital (formerly Dyal) also holds a minority stake in Sixth Street.

Sixth Street is seeking commitments of €2.0-2.5 billion for SLE III, the third vintage of their European direct lending series. SLE III is expected to primarily provide debt capital to European middle market borrowers with a focus on sponsor-backed software and technology companies. The Fund's portfolio is also expected to include asset-based lending structures and opportunistic lending to borrowers with stressed business profiles.

Aksia believes Sixth Street to have a strong, established platform with an experienced team. The Fund is expected to 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 used by the Fund is opportunistic in nature and employs an interesting approach that we believe 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 Sixth Street's investment process, including a review of the sponsor, investment strategy, market positioning, investment personnel, and risk management;
 - Most recent investment due diligence review was conducted in June 2024.
- Due diligence of Sixth Street's operations, including a review of its organizational structure, service providers, regulatory and compliance, LPA and financial statement analysis;
 - Most recent on-site operational due diligence visit was conducted in May 2024.
- 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 these funds, 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, Co-Head, Advisory Americas



Simon Fludgate
Partner, Head of Operational Due Diligence