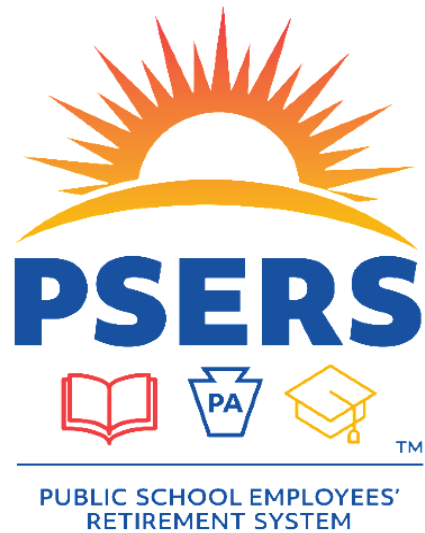


PSERB Resolution 2025-25
Re: Stellex Capital Partners III LP
March 21, 2025

RESOLVED, that the Public School Employees' Retirement Board (the "Board") accepts the recommendation that the Investment Committee and commits an amount not to exceed \$133 million, plus reasonable and normal investment expenses, in Stellex Capital Partners III LP, and/or related investment vehicles in accordance with the recommendation of Luke M. Jacobs, 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 contract.



Stellex Capital Partners III LP Private Equity Recommendation

Luke M. Jacobs, CFA, CAIA
Portfolio Manager

March 2025

Today's Presentation

Stellex Capital Partners III LP (“Stellex III” or the “Fund III”)

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 \$133 million to Stellex Capital Partners III LP (\$100M fund + \$33M coinvestment sidecar)*

3. Strategy & Expertise

- *Specifically target middle market companies where they can apply their business and investment expertise to create better and more efficient businesses.*

4. Investment Considerations

- *Investment expected to face certain risks consistent with Private Equity investments and staff believes that Stellex has identified appropriate mitigants to those risks.*

5. Investment Highlights

- *Consistent historical performance and complementary fit with PSERS private equity portfolio.*

Appendix

- Private Equity Dashboard
- Investment Committee Disclosure

1. Asset Class Considerations

Recommendation is consistent with PSERS' Strategic Asset Allocation (SAA) and current year commitment planning

PSERS SAA and Pacing

1. PSERS SAA has established a target allocation of 12.0% to Private Equity.
2. The current overweight is due to an allocation reduction and slower-than-projected distributions in 2023 and 2024.
3. Aksia's latest pacing analysis suggests \$1.4B-\$2.0B of annual commitments to reach the target exposure in 2026. IOP propose a range of \$700M-\$1.0B in 2025 to scale into long term target commitment levels.
4. The pacing analysis is revisited frequently based on the actual performance of the Private Equity allocation and the broader PSERS portfolio.

SAA Allocation	
Private Equity Target	12.0%
Private Equity Actual	15.7% ¹
Pacing Budget	
	2025
Proposed Pacing Budget Range	\$700M - \$1.0B
Primary Fund Commitments	
YTD Commitments	\$0
March 2025 Recommendations	\$233M
Co-Investments	
YTD Commitments	\$10
Total Primary and Co-Investments	\$243M
Remaining Budget ²	\$607M
Est. Remaining Primary Fund Recommendations	\$550M
Expected to be in Target Budget Range?	Yes

1. Private Equity Actual sourced from Verus 2024 Q3 Total Fund Report
 2. Remaining to the mid-point of the pacing budget

2. Recommendation Overview

PSERS IO and Aksia recommend committing \$133 million to Stellex III

Fund Name	Stellex Capital Partners III LP
Firm Name	Stellex Capital Management LP
Net Return Target	20% - 25%
Investment Professionals / Employees	33 / 48
Strategy Invested Capital ¹	\$3.4 billion (across Funds I - III)
Target Fund Size	\$2.5 billion
Recommended Commitment Amount	\$133 million
GP Commitment	The lesser of 2% of LP commitments, or \$50 million
PSERS Existing Relationship	No
Notable Investment Committee Disclosure ²	None

3. Stellex III Strategy & Expertise

Expertise in control-oriented investments in underperforming, undervalued, or special situation middle-market businesses.

- 1. Sector & Geography:** Fund III's strategy seeks to make control investments in North American and European companies in mismanaged, and underperforming companies in the manufacturing, business services, transportation, logistics, government services, and aerospace and defense businesses.
- 2. Portfolio Construction:** The Fund will invest between \$75 million - \$150 million in 17 - 23 companies.
- 3. Value Oriented, Middle Market Focus:** The Stellex team focuses on mismanaged, undervalued and underperforming companies that often suffer from flawed, or dated strategies. With their expertise, they work actively with portfolio company management teams to create better and more efficient businesses.

4. Investment Considerations

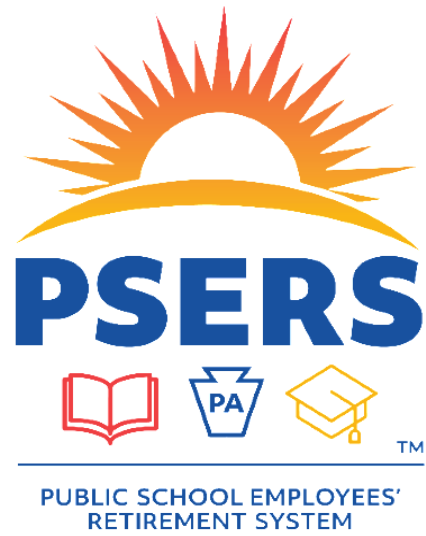
Investment expected to face certain risks consistent with Private Equity investments and staff believes that Stellex has identified appropriate mitigants to those risks

Risk	Detail	Mitigating Factors
Uncertainty with Distressed Assets	PSERS is very aware that investments in the Fund are subject to certain risks, especially with distressed assets such as availability of credit, credit defaults, regulatory changes, etc.	<i>The Stellex investment team has deployed capital in many different market cycles and economic environments over the years, with Stellex, or at their previous employers. PSERS believes the Firm is well positioned to manage through these risks with investing and managing Fund III.</i>
Exposure to Unrealized Assets	Stellex’s prior funds, Fund II, (a 2021 vintage year) and Fund I (a 2015 vintage year), still have significant holdings in unrealized assets.	<i>These funds appear to be “on track” with stated investment expectations and some, or most of these investments in their prior funds should come to realizations over the next couple of quarters.</i>
Fund Size Increase	Fund III, at \$2.5 billion, represents a meaningful increase from their prior fund.	<i>Stellex has been very thoughtful and pragmatic about their approach to the Fund III fund raise. The Fund will have approximately the same number of investments with modestly larger check sizes as their prior two funds.</i>

5. Investment Highlights

Value-oriented strategy that should complement PSERS existing Private Equity portfolio

Highlight	Detail
Differentiated Sourcing Opportunities	Stellex’s regional relationships, through two business development offices, one in Pittsburgh and the other in Detroit, have provided access to meaningful deal flow and a window into seeing “under the radar” investment opportunities.
Experienced Team in Complex Situations	Stellex’s Managing Partners have over 50 years of combined experience in the sourcing and execution of complex investments.
Value Oriented Approach	PSERS views Stellex as a unique investment opportunity given their strategy/track record of acquiring viable middle-market businesses at attractive discounts to their intrinsic value.

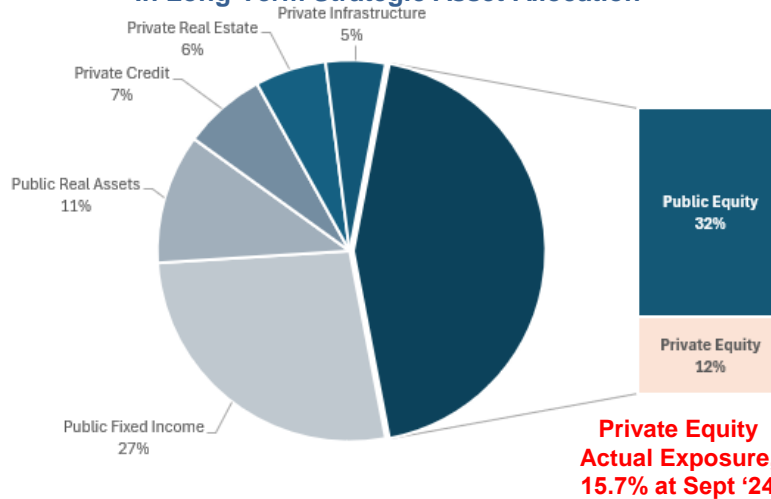


Appendix

Private Equity Portfolio Dashboard

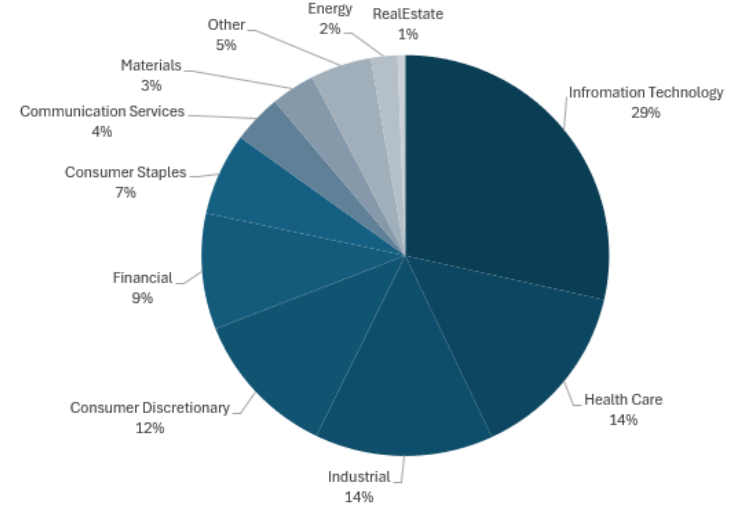
As of September 30, 2024

Target Allocation to Real Assets In Long-Term Strategic Asset Allocation



Note: 3.1% figure sourced from Verus 2024 3Q – Total Fund Report

Sector Diversification³



³ Sector Diversification as of June 30, 2024

Recent Fund Commitments (\$M)

2024	
LLR Equity Partners VII	\$125M
Summit Partners Growth Equity Fund XII	\$100M
2025	
Stellex Capital Partners III	\$133M
K6 Private Investors, LP	\$100M

Portfolio Performance

	Time-Weighted Return					10-Yr PME Analysis	
	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	KS-PME	Direct Alpha
Buyout	4.6%	6.5%	13.3%	11.2%	11.7%	1.0x	1.6%
Growth Equity	9.5%	3.1%	19.7%	19.3%	18.9%	1.3x	9.4%
Venture Capital	6.8%	-1.1%	12.9%	7.8%	7.8%	0.9x	-1.8%
Co-Investment	7.0%	4.9%	16.2%	17.7%	22.9%	1.3x	6.6%
Total Portfolio	5.3%	5.3%	14.5%	12.2%	12.3%	1.1x	2.5%
Benchmark	7.9%	4.5%	13.6%	12.4%	13.0%		

Color-coding: **outperformance** or **underperformance** vs. benchmark.

¹ KS PME and Direct Alpha are calculated compared to Private Equity's PME benchmark (MSCI ACWI IMI with USA Gross, Non-US Net Index, unhedged; – ticker M1WDW\$GI).

² Benchmark for TWR comparisons is the PE Policy Benchmark

Investment Committee Disclosure

No material mandatory disclosures

Disclosure	Response
Relationship with Aksia	As of November 30, 2024, seven (7) current Aksia advisory clients have made total aggregate subscriptions and commitments of \$1.2 billion and one (1) current investment management client has made total aggregate subscriptions and commitments of \$50 million across investments (including the Fund) managed by Stellex Capital Management. As of February 18, 2025, there is one other Aksia client considering a commitment to Stellex Capital Partners III.
Introduction Source	PSERS Outreach
Compliance with Placement Agent Policy	As confirmed by PSERS' Office of Chief Counsel on February 7, 2025, this investment complies with the Board's 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	Stellex 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.
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

February 28, 2025

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

Re: Stellex Capital Partners III

Aksia LLC ("Aksia"), having been duly authorized by Board of PSERS, has evaluated and hereby recommends, in line with PSERS' Investment Policy Statement, Objectives, and Guidelines, an amount not to exceed \$100 million in Stellex Capital Partners III ("Fund III" or the "Fund") and up to \$33 million to the Stellex Capital Partners III Co-Investment Side Car (the "Co-Investment Fund").

Stellex Capital Partners ("Stellex" or the "Firm") was formed in 2014 by Ray Whiteman and Mike Stewart (collectively the "Founding Partners"). Prior to forming Stellex, the Founding Partners served as Managing Directors and the co-heads of Carlyle Strategic Partners, a wholly owned entity of The Carlyle Group ("Carlyle"), where they raised, deployed, and harvested three funds with over \$2.2 billion in AUM from 2003 to 2013. In late 2013, the Founding Partners left Carlyle to pursue a similar strategy albeit more focused on control investments in businesses often within industrial end-markets. At Stellex, the Founding Partners have raised two funds with over \$2.6 billion in commitments. The Firm continues to be led by Whiteman and Stewart today, and the team has grown to over 40 employees residing across four offices in New York City, London, Pittsburgh, and Detroit.

Like its predecessor funds, Fund III is expected to make control-oriented investments in middle market businesses in North America and Europe. Stellex maintains a flexible mandate with the ability to invest across the capital structure and through a variety of transaction types including corporate carve-outs, debt-for-control, bankruptcy restructurings, buy-and-builds, founder-owned buyouts, among others. While the Firm has historically invested primarily in the industrials sector, Stellex is expected to broaden its scope to include more services business models as well as B2B and consumer end markets.

Aksia's recommendation to commit as described above 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 November 2024

Due diligence of the operations, including a review of the organizational structure, service providers, regulatory and compliance, and financial statement analysis;

- Most recent operational due diligence review on the Fund conducted November 2024
- Most recent operational due diligence review on the Co-Investment Fund conducted May 2024
- Consideration of the Fund's strategy within the context of the current investment environment; and
- Consideration 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,



Thomas Martin
Partner, Co-Lead of Private Equity



Simon Fludgate
Partner, Head of Operational Due Diligence