



Private Debt Fund Commitment

Centerbridge Capital Partners III, L.P.

August 5, 2014

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Manager, Private Markets

Centerbridge Capital Partners III, L.P. – Private Debt Fund

Overview

- The Fund will focus on private equity investments and distressed for control investments
- Investments will be primarily in the US and Western Europe
- Centerbridge will invest in the following sectors (building materials, business services, energy, financial services, healthcare, industrials, media/telecom/technology, real estate/gaming/lodging, retail/consumer and transportation/logistics)
- The Fund has a target of \$5.75 billion and a hard cap of \$6 billion
- GP is committing at least 2% of the aggregate capital commitments to the fund

Fund Strategy

- Centerbridge employs an “all weather” strategy. When there is an economic downturn they will focus on distressed investments otherwise they may focus on private equity transactions
- They will invest in businesses where there is a discount to intrinsic value
- The firm seeks to drive value creation
- Most of the debt investments will be made with a goal of controlling the business

Investment Team

- The current team consists of 188 employees, 63 are investment professionals, 21 are Senior Managing Directors with an average of 17 years of experience
- There are 8 members on the Portfolio Operations Team
- Centerbridge has offices in New York City and London

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Centerbridge Capital Partners III, L.P. – Private Debt Fund

GP “Value Add”

- Centerbridge’s ability to drive value creation in its portfolio companies is another differentiating factor. The firm tailors their approach for each investment. Centerbridge’s Portfolio Operations Team provides targeted insight from due diligence through an exit, while the investment team members also stayed involved with the company
- Members of the Portfolio Operations Team have implemented a wide range of market-focused initiatives including optimizing pricing, refreshing brand identity, global expansion, and others. The Team has a particular focus on procurement optimization which assists portfolio companies with reducing costs for health insurance, travel expenses and shipping costs

Performance – As of March 31, 2014

| <u>Fund Name</u> | <u>Vintage Year</u> | <u>Net Multiple</u> | <u>Net IRR</u> |
|------------------|---------------------|---------------------|----------------|
| Fund I | 2007 | 2.2 x | 23% |
| Fund II | 2011 | 1.1 x | 6% |

Market Opportunity

- During periods of broad economic growth, low interest rates and robust equity and debt markets, the Firm has focused on control investments using leveraged buyouts. When confidence eventually wanes and default rates begin to rise, debt prices tend to decline, creating conditions that allow experienced distressed investors like Centerbridge to acquire significant positions in companies’ capital structures, play active roles in the restructuring process and at times gain control of a company

History with PSERS

- This will be the first fund investment with Centerbridge

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Risks and Mitigants

- Increased exposure to Europe – Centerbridge has added staff to its London office to accommodate the increased exposure to European investments. The firm also hedges its currency exposure
- Limited number of PE investments – The portfolio will be diversified by sectors and the addition of control and non-control debt positions helps to diversify the Fund

Board Issues

- Pennsylvania Presence:

| <u>Portfolio Company</u> | <u># of offices</u> | <u># of PA employees</u> |
|--------------------------|---------------------|--------------------------|
| Champion Enterprises | 3 | 358 |
| P. F. Chang's | 8 | 507 |
| Syncreon Holdings | 3 | approximately 600 |
| American Renal Holdings | 9 | 161 |
| Cardinal Logistics | 1 | 120 |
| Extended Stay America | 16 | approximately 250 |
| Remedi SeniorCare | 1 | approximately 250 |
| Focus Financial Partners | 2 | 37 |

- Placement agents – None
- PA political contributions – 10/4/12 Mark Gallogly made a \$500 contribution to Sen Casey and on 9/19/13 he made a \$2,600 contribution to Senate candidate Sestak
- Relationship with consultant – Portfolio Advisors made a \$20 million commitment to Centerbridge Capital Partners II through their fund of funds vehicle

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$100 million plus reasonable normal investment expenses

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July 16, 2014

Board of Trustees
Pennsylvania Public School Employees' Retirement System
5 North 5th Street
Harrisburg, PA 17101

Re: Centerbridge Capital Partners III, L.P.

Dear Trustees:

Centerbridge Partners, L.P. ("Centerbridge" or the "Firm") is forming Centerbridge Capital Partners III, L.P. ("CCP III" or the "Fund") to continue the strategy pursued by the Firm's prior two funds. The Fund will make investments primarily in the US and Europe where the Firm believes it can drive substantial value creation through control or influence. The two fundamental features of this approach are the Firm's flexible, value-oriented approach to identifying control investment opportunities and its active use of control post investment to effect operational improvements and other value-creating strategies. Centerbridge is targeting aggregate capital commitments from limited partners of \$5.75 billion. The General Partner will commit a minimum of 2% of total capital commitments to the Fund. A first and final closing at the Fund's hard cap is scheduled for October 24, 2014.

As a value investor, Centerbridge invests in businesses at discounts to intrinsic value, or in situations where the entry valuation compares favorably to the Firm's expectations for the company's future growth prospects. The Firm's flexibility stems from the recognition that there are many paths to making what may ultimately become a control investment. Unlike many competitors that focus exclusively on investing in a particular security or transaction type, Centerbridge focuses primarily on making investments that will ultimately have the potential to result in the Firm obtaining control or influence at an attractive price. Once control or influence has been obtained, the Firm, and specifically the Portfolio Operations Team, works actively with management to drive value creation initiatives. This approach results in a reduced need for the Firm to time the market, as the strategy can be adapted based on varying market conditions.

To implement this strategy, the Firm has assembled a deep, diverse team with backgrounds in private and public equity, distressed credit, real estate and structured products. Above the Associate level, the investment team is divided based on industry verticals including Building Materials, Business Services, Energy, Financial Services, Healthcare, Industrials, Media/Telecom/Tech, Real Estate/Gaming/Lodging, Retail & Consumer and Transportation & Logistics. Within each vertical, Centerbridge seeks investment opportunities across the capital structure and across various transaction types that will result in control or influence. During times of economic growth, low interests rates and robust capital markets, Centerbridge has focused on control investments via leveraged buyouts and other private equity structures. On the other hand, during times of economic instability, default rates will rise and debt prices will decline, leading to an attractive environment



for distressed investing. Generally, investments take the form of leverage buyouts, distressed for control investments or customized structures.

Portfolio Advisors' recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals. The on-site due diligence visit was performed on July 9, 2014.
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- The strategy proposed for the Fund is appropriate for the Private Equity Partnership component of the portfolio.

The individuals at Portfolio Advisors who were primarily involved in the due diligence process for the Fund are:

John Kyles – Managing Director, Connecticut Office
Geoffrey Kelleman – Senior Associate, Connecticut Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million of limited partnership interests in Centerbridge Capital Partners III, L.P. Portfolio Advisors makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

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. The scope of this recommendation is limited to the investment merits of the Fund. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,

WILLIAM J. INDELICATO
MANAGING DIRECTOR