



Private Debt Fund Commitment

Windjammer Senior Equity Fund IV, L.P.

December 8, 2011

See Last Page for Disclaimer

Charles J. Spiller, Managing Director,
Private Markets and Real Estate

Windjammer Senior Equity Fund IV, L.P. – Private Debt Fund

Overview

- Fund size \$700 million with a \$800 million hard cap
- Will invest in the debt, preferred, or common equity of a business in either control and minority equity investments
- Windjammer IV will have approximately 10 to 12 investments with an average equity investment of approximately \$70 million

Fund Strategy

- The fund will invest in businesses with a high return on net assets, high barriers to entry, high market share, and a strong management team
- The fund will avoid highly cyclical industry sectors such as technology, real estate, and certain segments of the financial industry such as banking

Investment Team

- Windjammer has 13 deal professionals and 3 support professionals
- Windjammer has offices in Newport Beach, CA and Waltham, MA

Windjammer Senior Equity Fund IV, L.P. – Private Debt Fund

GP “Value Add”

- Windjammer’s value add is tailored to each platform company and includes initiatives such as: (i) manufacturing optimization incorporating lean initiatives, Six Sigma and global production realignment to improve cost and quality; (ii) new product introduction and market expansion, both domestically and internationally; (iii) strategic acquisitions to drive sales and earnings growth through product line extensions, new geographic market penetration and increased share in previously served market sectors; (iv) upgrades to IT operating systems; and (v) when necessary, strengthen management teams to successfully execute on operational initiatives and strategic plans

Performance

- Windjammer III a vintage year 2006 fund, has a net 1.6x MOC and a 19.4% IRR (6/30/2011)
- Windjammer II a vintage year 2001 fund, has a net 1.4x MOC and a 8.6% IRR (6/30/2011)
- PMI Mezzanine Fund has a net 1.6x MOC and a 10.2% IRR (6/30/2011)

Market Opportunity

- Windjammer seeks to investment in leading middle market companies, which are typically defined with EBITDA between \$8 million and \$40 million. Windjammer believes a vast majority of companies in the U.S. reside within this segment of the market, providing a significant source of annual demand for investments associated with buyouts, recapitalizations, growth financings, acquisitions and consolidations. According to U.S. Census data, there are approximately 80,000 U.S. companies with sales between \$25 million and \$1.0 billion, representing a large potential opportunity for Windjammer.

Windjammer Senior Equity Fund IV, L.P. – Private Debt Fund

History with PSERS

- This will be PSERS second commitment with Windjammer. PSERS committed \$50 million to Windjammer Senior Equity Fund III which is a vintage 2006 fund

Board Issues

- Pennsylvania Presence – None
- Placement agents – None
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors has made \$20 million in fund commitments to Fund III. Portfolio Advisors is on the LP advisory board.

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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November 18, 2011

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

Re: Windjammer Senior Equity Fund IV, L.P.

Dear Trustees:

Windjammer Capital Investors, LLC (“Windjammer”) is organizing its fourth institutional fund and fifth investment portfolio, Windjammer Senior Equity Fund IV, L.P. (the “Fund” or “Fund IV”). Fund IV will pursue a similar strategy to prior Windjammer funds by targeting a diversified portfolio of equity and subordinated debt investments in middle-market advanced manufacturing, specialty distribution, and scalable business service companies. Windjammer is led by Robert Bartholomew and Costa Littas (the “Managing Principals”), who have been partners together at Windjammer for the past eleven years. Fund IV is targeting \$700 million of commitments and expects to hold a first close in January 2012.

The Fund will make control and non-control investments in profitable middle-market companies, primarily in the advanced manufacturing, specialty distribution, and scalable business services industries. Windjammer expects to invest in approximately ten to fifteen platform companies with a typical initial investment size ranging from \$50 to \$120 million. Transactions may include common equity, preferred equity, and/or subordinated debt for corporate buyouts, recapitalizations, and add-on acquisitions. Target portfolio companies will typically have \$10 to \$40 million in operating profit and be characterized by strong profitability, low demand drivers, and a defensible and differentiated market share position. Windjammer will structure investments in a manner that provides investors with both significant capital gain opportunity from equity as well as current yield and a faster rate of return of capital from subordinated debt.

Windjammer’s equity and subordinated debt capabilities are a product of its evolution over two decades. The Firm’s original focus on subordinated debt and minority equity investing led to the establishment of strong diligence and credit protocols. Through this experience, Windjammer also gained a greater appreciation for the critical importance and direct correlation between hands-on involvement with portfolio companies and successful investment outcomes. Beginning in 2000, the Firm began to build upon its credit foundation with additional internal resources and protocols, which enabled it to pursue control and non-control equity opportunities with an increased tactical focus on

building value post-closing. This evolution in strategy was fully embraced in Fund III, where the Firm further strengthened its high quality investment criteria while also demonstrating its ability to fundamentally improve businesses and build significant equity value during its investment holding period. This is evident in Fund III's portfolio performance and its shift relative to previous funds in the composition of securities (only 25% in debt securities versus 65% for Fund II). Combined with limited partners' equity co-investments, the Firm commits its resources to generating significant capital gains and current yield from an investment portfolio consisting of high quality middle-market businesses.

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, private equity professionals and CEOs of portfolio companies.
- 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.

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million of limited partnership interests in Windjammer Senior Equity Fund IV, 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,

A handwritten signature in blue ink, appearing to be 'J. P. ...', is written over a light blue circular stamp.

Portfolio Advisors, LLC

**Proposed
PSERB Resolution 2011-_____**
Re: Windjammer Senior Equity Fund IV, L.P.
December 8, 2011

RESOLVED, that the Finance Committee of the Public School Employees' Retirement Board (the "Board") hereby recommends that the Board invest an amount not to exceed \$100 million plus reasonable normal investment expenses, in Windjammer Senior Equity Fund IV, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated December 8, 2011. The final terms and conditions of the investment 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 the implementing investment contract or by a memo to that effect appended to the implementing investment contract.