



**Commonwealth of Pennsylvania
Public School Employees' Retirement System**

DATE: June 6, 2012

SUBJECT: Radcliffe Capital Management, L.P.

TO: Members of the Board

FROM: Mark Heppenstall, CFA 
Managing Director, Fixed Income

Joseph W. Sheva, CPA 
Senior Investment Professional

At the June Finance Committee meeting, we will recommend that the Finance Committee retain Radcliffe Capital Management, L.P. as a portfolio manager of an ultra-short high yield strategy. The strategy focuses on corporate bonds (primarily below investment grade) which offer high risk adjusted yields. As of April 30, 2012, the unlevered yield on the portfolio is approximately 4.0% with duration of 0.84 years. This strategy will be added to the internally-managed LIBOR-Plus Fund portfolio to enhance returns in a new sector of the fixed income market for the internally-managed LIBOR-Plus Fund.

Radcliffe analyzes credit for short maturity high yield debt in a similar way to how we internally approach credit analysis for short term investment grade corporate debt, namely focusing on cash available within a company's balance sheet to meet near term debt maturities. Radcliffe only invests in companies that have more than a one times cash coverage (unrestricted cash/all outstanding debt up to the maturity date of the specific bond being purchased).

The very front end of the corporate debt yield curve being analyzed by Radcliffe has supply and demand imbalances which tend to favor the bond buyer. Hedge funds and long only high yield managers tend to own longer maturity bonds with higher yields, and the high yield indices drop bonds once they roll to less than one year to maturity. Money funds and most short duration bond funds do not hold below investment grade debt which leaves very few buyers in this space. Also, many times companies will tender for or call their short-term debt and look to refinance into longer term debt which can enhance returns for this strategy.

Staff and Wilshire completed a review of Radcliffe's capabilities to manage an ultra-short high yield mandate and believe they have the resources and industry expertise to successfully manage such a mandate. Our current plan is to fund an allocation of \$200 million from the internally-managed LIBOR Plus Fund for this mandate.

Included with this memo are Biographies of Radcliffe's investment managers, Wilshire's recommendation memo and the resolution that recommends the hiring of Radcliffe.

If you have any questions or comments, please contact Joe Sheva at 717-720-4632.

Steve Katznelson, CFA

Mr. Katznelson was the majority founder of the Radcliffe Group in 1996. As Chief Investment Officer, he oversees portfolio management and is co-chair of Radcliffe's Investment Committee. He has invested in and managed large portfolios of fixed income securities beginning in 1988. Prior to Radcliffe, Mr. Katznelson was hired by Susquehanna Investment Group in 1991 to develop and manage a convertible arbitrage department that became a significant profit center and was widely respected for its trading and modeling acumen. Mr. Katznelson became an Associate Director of Susquehanna and President of both Susquehanna Capital Group and Susquehanna Financial Group (two of Susquehanna's five broker dealers). From 1989 to 1990, Mr. Katznelson was a convertible securities trader and Director of Convertibles Research at Drexel Burnham Lambert in New York. In 1987, Mr. Katznelson was an associate in the corporate finance department of Leveque Beaubien in Toronto and, in 1988, he started modeling, trading and investing in convertible bonds for Leveque.

Mr. Katznelson received a B.A. from Queen's University in Kingston, Ontario in 1984 and an M.B.A. from the Johnson Graduate School of Management at Cornell University in 1987 where he co-received the Hemmeter Prize for Best Entrepreneurial Business Plan. He is a CFA Charterholder, as well as a member of both the CFA Institute and the Financial Analysts Society of Philadelphia. Mr. Katznelson is on the Board of Trustees at The Agnes Irwin School, where he was Chairman of the Finance Committee and now serves as Treasurer.

Christopher Hinkel

Mr. Hinkel is a Partner, Director of Research and co-chair of Radcliffe's Investment Committee. He focuses primarily on the Radcliffe Funds' financial, retail, leisure and consumer sector investments. He engages in credit analysis, due diligence and modeling of investment opportunities, and advises on portfolio management and hedging. Mr. Hinkel left the Master of Science in Finance Program at Boston College's Carroll School of Management in June 1998 to join the Radcliffe Group as an analyst. He worked at the Radcliffe Group from June 1998 through August 1999 and rejoined the firm in March 2004. Prior to his return to the Radcliffe Group, Mr. Hinkel was a founding principal of Raven Investment Group, LLC, a convertible arbitrage investment manager which managed funds for Ritchie Capital Management, and immediately prior thereto worked directly on the Ritchie Capital Management convert desk. Before joining Ritchie in October 2001, Mr. Hinkel worked as Director of Business Development for Soltima, a wireless technology start-up in San Francisco, from September 1999 through August 2001. Mr. Hinkel also served as a commercial credit analyst for Fultron Financial Corporation from 1995-1997. Mr. Hinkel earned his B.S. in Business Administration, *magna cum laude*, from Bloomsburg University in 1995.

Darren Clipston, CFA

Mr. Clipston is a trader and also serves as an analyst focusing on idea generation, fundamental due diligence and credit analysis at Radcliffe. Prior to joining the Radcliffe Group in June 2008, Mr. Clipston spent five years trading convertibles at Drake Management where he was a portfolio manager for Drake's convertible arbitrage strategies and was a member of the firm's investment committee. Prior to that, he was a convertible trader and analyst for two years with Sagamore Hill Capital Management where he focused on U.S. convertible arbitrage and special situations investments. Mr. Clipston has previously worked in risk management at Greenwich Capital Markets and as a corporate finance analyst at RFC Corporate Finance, in Perth, Western Australia. Mr. Clipston received a Bachelor's of Commerce in Operations Research and a Bachelor's in Electrical Engineering (with 1st Class Honours) from the University of Western Australia in 1995 and a Master's of Arts in Mathematics, specializing in Finance, from Columbia University in 1998. He is a CFA Charterholder, as well as a member of the CFA Institute.

Peter Rudnick

Mr. Rudnick is primarily focused on idea generation, fundamental due diligence and credit analysis at Radcliffe. He joined the firm in November 2010. Prior to Radcliffe, Mr. Rudnick was a Managing Director of Convertibles and Credit Trading at The Seaport Group where he was responsible for idea generation, fundamental credit research, sales coverage and trade execution in US convertible bonds, distressed/bankruptcy and high yield credit trading. Prior to Seaport, Mr. Rudnick was Vice President on the Convertible Bond desk at Banc of America Securities LLC where he was head of fundamental credit research. Prior to that, he was a Senior Credit Analyst at BNP Paribas - Copper Neff Advisors where he was responsible for fundamental and quantitative credit research. Mr. Rudnick began his career at Arthur Andersen LLP where he held Supervisory and Senior Auditor positions. Mr. Rudnick received his Bachelor of Arts in Business and Economics from Lafayette College in May 1995. He received his M.B.A. from the Fuqua School of Business at Duke University in May 2004 and is a Certified Public Accountant (inactive).

Ryan Adams, CFA

Mr. Adams is primarily focused on idea generation, fundamental due diligence and credit analysis at Radcliffe. He joined the firm in April 2012. Prior to Radcliffe, Mr. Adams was an Analyst at LBC Credit Partners, a \$1.4 billion provider of middle-market financing solutions, where he was responsible for underwriting new credits and monitoring their existing portfolio. Prior to LBC, Mr. Adams was employed for four years at John Hancock Financial Services where he worked as a Senior Analyst in their Bond & Corporate Finance Group investing in new credits and monitoring a \$1.5 billion portfolio of public and private fixed-income securities on behalf of the firm's insurance operations. Mr. Adams received a Bachelor of Arts with a concentration in Mathematics and Administrative Science from Colby College in 2007. He is a CFA Charterholder.