

# Private Debt Fund Commitment



## Versa Capital Fund III, L.P.

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# Versa Capital Fund III, L.P. – Private Debt Fund

## Overview

- The targeted fund size is \$750 million with a \$850 million hard cap
- Will invest in middle market control distressed buyouts in North America
- Investments of \$10 million to \$100 million in a single transaction
- Invests in companies with enterprise values of \$25 million to \$500 million
- Versa expects Fund III to have 14 to 18 portfolio companies

## Fund Strategy

- The Fund will make investments in companies anticipating or experiencing financial, operational or organizational distress
- Investments will generally be equity investments but Versa may make debt investments that provide an entry point towards a potential control investment
- The Fund will generally avoid investing in companies that are too late in the recovery process, when the business becomes a mainstream target of buyout investors

## Investment Team

- Versa has a team of 37 investment and portfolio operations professionals
- Senior team members began investing in distressed assets in 1995
- Versa has one office in Philadelphia, PA

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## GP “Value Add”

- The Fund will seek to provide a superior risk-adjusted return for its investors by applying a hands-on, value-added investment model to controlling its investments. The control debt middle market suffers from the lack of value-add experienced General Partners. Versa Capital aims to continue to fill this void

## Performance

- Versa II a vintage year 2008 fund, has a net 1.18x MOC and a 11.34% IRR (3/31/2012)
- Versa I a vintage year 2005 fund, has a net 1.74x MOC and a 19.44% IRR (3/31/2012)

## Market Opportunity

- Distressed investment opportunities occur in all economic environments. A key thesis is that complexity and uncertainty limit competition and provide compelling opportunities which can achieve superior returns due to being able to buy businesses at a lower price compared to traditional buyout investments
- Versa seeks to invest in distressed middle market companies, which are typically defined with annual revenue between \$50 million and \$1 billion. According to a 2011 Deloitte report, middle market companies represent \$6.1 trillion in annual revenues which is equivalent to 40% of US GDP

# Versa Capital Fund III, L.P. – Private Debt Fund

## History with PSERS

- This will be PSERS third commitment with Versa. PSERS committed \$75 million to Versa Capital Fund I and \$150 million to Versa Capital Fund II

## Board Issues

- Pennsylvania Presence –

Wilkes-Barre Publishing, LLC (Impressions Media)	Headquartered in Wilkes-Barre, PA
Bell and Howell, LLC	1 Location – Bethlehem, PA
Avenue Stores, LLC	12 Locations
American Laser Skincare, LLC	6 Locations
Central Parking Corp.	>50 Locations

- Placement agents – None
- PA political contributions – An employee made a contribution of \$2,500 to the primary campaign of Senator Robert Casey, Jr. in February 2012
- Relationship with consultant – In 2011, an affiliate of Portfolio Advisors purchased from an unaffiliated third party a secondary interest in Versa Fund I

## Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$150 million plus reasonable normal investment expenses

Notice: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.



July 24, 2012

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

Re: Versa Capital Fund III, L.P.

Dear Trustees:

Versa Capital Management, Inc. ("Versa" or the "Firm") is seeking to raise its third fund, Versa Capital Fund III, L.P. ("Versa III" or the "Fund"). Versa III has a target of \$750 million and hard-cap of \$850 million. Versa is expected to hold a first close on the Fund in the second half of 2012 with a final close expected during the first half of 2013. The General Partner is expected to commit 3% of the aggregate commitments.

Fund III will invest in middle-market, North American companies undergoing or requiring financial restructuring, operational or organizational turnaround, reorganization, Chapter 11 bankruptcy or other unique situations. Versa believes that middle-market companies, which are companies with revenues between \$50 million and \$1 billion, offer the opportunity for superior returns because (i) the middle-market is typically underserved by capital providers due to its lack of transparency as well as preference for larger, more liquid distressed opportunities; and (ii) distressed middle-market investment opportunities occur in all market environments due to structural and cyclical factors.

The Fund will invest new capital in such companies in exchange for debt or equity securities or structured contractual payments, purchasing the assets of such companies and/or funding the payment of the expenses of administration and/or dividends to creditors under a Chapter 11 plan of reorganization. Versa successfully converted debt to equity in approximately 75% of its Fund I and II investments. Fund III will seek both current income and capital appreciation from making investments in the equity or debt securities or other indebtedness of such companies and will typically seek, alone or with others, to obtain control of or significant influence over target businesses or the underlying assets.

In addition to its control investment strategy, Fund III may pursue other strategies that include but are not limited to: debt acquisition and disposition, 'asset-backed equity', and opportunistic special situations investments. Such investments may have different needs and attributes compared to the Fund's typical buyout/control investments. For example, 'asset-backed equity' investments acquire marketable assets of asset-rich entities which lack liquidity. Such assets may include real estate, trademarks, inventory, equipment or financial assets.

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 \$150 million of limited partnership interests in Versa Capital Fund 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,

A handwritten signature in blue ink, appearing to be a stylized name, possibly 'J. P. ...', written in a cursive style.

Portfolio Advisors, LLC