

# Commonwealth of Pennsylvania Public School Employees' Retirement System

**DATE:** April 10, 2014

**SUBJECT:** High Yield Debt Recommendation

**TO:** Members of the Board

**FROM:** Joseph W. Sheva, CPA  
Portfolio Manger 

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At the May Finance Committee meeting, staff and Portfolio Advisors will recommend that PSERS commit \$250 million to the TSSP Adjacent Opportunities Partners, L.P. (TAO) strategy, managed by TPG Special Situation Partners (TSSP). PSERS investment will be in a parallel fund structure called PSERS TAO Partners Parallel Fund, L.P., a "fund of one", which will invest along side the TAO Fund and other parallel funds on a pro rata basis (collectively, the "TAO portfolio").

The TAO portfolio will primarily be comprised of adjacent opportunities that have attractive risk/reward qualities, but are not a fit for the other TSSP fund mandates due mainly to return, duration, or control issues. This strategy seeks to capitalize on the "middle return" gap created by record low income yields, limited partner allocation buckets, and the inability of credit hedge funds to match assets and liability duration. TAO will also serve as a co-investment vehicle for the other TSSP mandates (TPG Opportunities Partners (TOP) and TPG Specialty Lending). PSERS is an investor in TOP II and TOP III.

TSSP was established in 2009 by TPG Capital (TPG) in conjunction with Alan Waxman to capitalize on liquid and illiquid credit dislocations and other special situations on a dynamic basis across various economic cycles. TSSP is a fully-integrated investing platform within TPG. TSSP leverages TPG's breadth of global investing experience, the turn-around capabilities of TPG's Operations Group and sector expertise of TPG's industry coverage teams. TSSP has a seasoned and cohesive investment team led by Alan Waxman. Collectively, the TSSP team has significant investment experience and has generated consistent returns in all phases of the credit cycle.

TSSP is deemed to be an institutional quality global investment firm in the credit areas where staff and Portfolio Advisors believe attractive risk/return opportunities currently exist.

Included for your review are Portfolio Advisor's recommendation, a PowerPoint presentation prepared by staff, and the resolution recommending an investment in the Fund.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4632.



## High Yield Commitment

# PSERS TAO Partners Parallel Fund, L.P.

April 10, 2014

**Joseph W. Sheva, CPA**  
**Portfolio Manager**

# PSERS TAO Partners Parallel Fund, L.P.

## Market Opportunity

- As a result of consolidation, strategy shifts, and other factors impacting capital providers, the opportunity exists to provide credit to underserved companies or with assets in high barrier to entry situations

## Overview

- Targeted fund strategy size is initially \$2.0 billion
- Dynamically allocates capital across investment opportunities
- PSERS will be investing in a parallel fund called PSERS TAO Partners Parallel Fund, L.P., a “fund of one”. TAO is an acronym for TSSP Adjacent Opportunities

## Fund Strategy

- » The portfolio will primarily be comprised of adjacent opportunities that have attractive risk/reward qualities, but are not a fit for the other TPG Special Situation Partners (TSSP) fund mandates due mainly to return, duration, or control issues.
- » This strategy seeks to capitalize on the “middle return” gap created by record low income yields, limited partner allocation buckets, and the inability of credit hedge funds to match assets and liability duration.
- » TAO will also serve as a co-investment vehicle for the other TSSP mandates (TPG Opportunities Partners (TOP) and TPG Specialty Lending). PSERS is an investor in TOP II and TOP III.



# PSERS TAO Partners Parallel Fund, L.P.

## Investment Team

- TSSP was established in 2009 by TPG Capital (TPG) in conjunction with Alan Waxman
- TSSP is fully integrated within TPG – access to TPG’s 17 global offices and 250 investment and operating professionals
- TSSP’s investment team is comprised of seven Partner Managing Directors and 70 other professionals focused on sourcing, analyzing and managing investments for TSSP
- Senior investment team is based in San Francisco, New York and London
- The team’s scale, experience and integration with TPG provides significant sourcing opportunities

## GP “Value Add”

- Opportunistic Multi-Strategy Approach
- Strength of Global TPG Platform

## Performance

As of June 30, 2013

- TPG Opportunities Partners II, L.P. (2011): 19.1% net IRR
- TPG Opportunities Partners NPL (A)(2011): 33.3% net IRR



# PSERS TAO Partners Parallel Fund, L.P.

## History with PSERS

- PSERS has invested in the following TPG Partners Funds:
  - TPG Opportunities Partners II, L.P. and TPG Opportunities Partners NPL (A) (2011): \$100 million each; TPG Opportunities III, \$150 million
  - TPG Partners L.P.: \$24 million
  - TPG Partners II L.P.: \$50 million
  - TPG Partners V L.P.: \$250 million
  - TPG Partners VI L.P.: \$360 million

## Board Issues

- Placement Agent(s): None
- Political Contributions in PA: None
- Relationships with Consultant: None
- Introduction Source: Current Relationship with TPG

## Recommendation

Staff, together with Portfolio Advisors, LLC, recommends that the Board invest \$250 million plus reasonable normal investment expenses in PSERS TAO Partners Parallel Fund, L.P.

**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.



April 10, 2014

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

Re: PSERS TAO Partners Parallel Fund, L.P.

Dear Trustees:

TPG (the "Firm") is raising a multi-investor separate account, TSSP Adjacent Opportunities Partners, L.P. ("TAO" or the "Fund"), to pursue adjacent and co-investment opportunities generated across TPG Special Situations Partners ("TSSP"), the credit and special situations platform of TPG. PSERS will invest via a parallel fund, PSERS TAO Partners Parallel Fund, L.P. ("PSERS TAO"), which will invest alongside TAO and other parallel funds on a pro-rata basis. PSERS will be the sole Limited Partner in PSERS TAO. These adjacent opportunities offer attractive risk/reward characteristics, but would not be appropriate for the TPG Opportunities Partners ("TOP") or the TPG Specialty Lending ("TSL") platforms due to return, duration, or control characteristics. TAO will also invest in co-investment opportunities from the TOP funds and TSL. TAO represents a further continuation of the opportunistic strategy employed by Alan Waxman as CIO of Goldman Sachs' Americas Special Situations Group ("AmSSG"). TAO will initially capped at \$2.0 billion, and will be comprised of a concentrated group of large Limited Partners. The Fund will be structured as an open-ended vehicle and provide each Limited Partner with the ability to begin realizing its position in the vehicle following the fifth anniversary of their initial commitment. At that time, a Limited Partners' commitment would no longer be recycled and as underlying positions are realized any proceeds would be distributed to the exiting Limited Partner.

TAO is led by Alan Waxman, a former Goldman Sachs partner who ran the Americas Special Situations Group, an on-balance sheet proprietary investing platform with approximately \$8 billion of dedicated balance sheet capital under management. TAO's investment team is comprised of seven Partner Managing Directors, including Mr. Waxman (Managing Partner and CEO of TSSP), Josh Easterly (Corporate Distressed-for-Control and Corporate Dislocations, Co-CIO of TSL), Clint Kollar (Head of Sourcing), Vijay Mohan (Corporate Distressed-for-Control and Corporate Dislocations), Mike Muscolino (Asset Special Situations), Steven Pluss (CFO and CRO of TSSP) and David Stiepleman (COO of TSSP). All seven of the TAO Partner Managing Directors have worked together at AmSSG or one of its predecessor business units. Collectively, the Partners have over 100 years of investing experience. This team is also responsible for leading the TOP platform, and three of the Partners, Messrs. Easterly, Waxman, and Stiepleman, also oversee the TSL platform.

The TAO portfolio will primarily be comprised of adjacent opportunities that have attractive risk/reward qualities, but are not a fit for the TOP or TSL mandates due mainly to return, duration, or control issues.



This strategy seeks to capitalize on the “middle return” gap created by record-low income yields, limited partner allocation buckets, and the inability of credit hedge funds to match assets and liability duration. TAO will also serve as a co-investment vehicle for the TOP funds and TSL. The team expects to create a cohesive portfolio across these opportunities.

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.
- 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  
Jeff Gruccio – Senior Vice President, Connecticut Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$250 million of limited partnership interests in PSERS TAO Partners Parallel Fund, 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