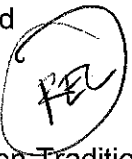


**Commonwealth of Pennsylvania
Public School Employees' Retirement System**

DATE: January 7, 2015

SUBJECT: SASOF III LP Recommendation

TO: Members of the Board

FROM: Robert E. Little, CPA 
Portfolio Manager, Non-Traditional Investment Strategies

At the January Finance Committee meeting, staff and Aksia will recommend that PSERS invest in SASOF III LP (Fund). This Fund, managed by Apollo Aviation, acquires, leases, and trades aircraft, aircraft engines, and aircraft parts.

Founded in 2002, Apollo Aviation specializes in mid-life to mature aircraft. The strategy looks to generate returns through the acquisition, lease, and sale of aircraft, aircraft engines, and aircraft parts.

Staff recommends that the Board invest \$150 million in this Fund, an amount which is within the target ranges established in Exhibit E of the Investment Policy Statement, Objectives and Guidelines as amended from time to time.

Included for your review are Aksia's recommendation letter, a presentation prepared by staff, the confidential fund terms, and the resolution recommending the investment in the Fund.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4707.



Absolute Return Program Allocation

SASOF III LP

January 21, 2015

Robert E. Little, CPA
Portfolio Manager, Non-Traditional Investment
Strategies

SASOF III LP

Overview of Apollo Aviation Holdings Ltd.

- Founded in 2002
- In 2007, entered into a 50% joint venture with an affiliate of Sciens Capital Management LLC
- Specialize in mid-life to mature in-demand aircraft
- Employ over 55 professionals worldwide
- Average industry experience per Principal is 25 years
- Offices located in Miami, Dublin, and Singapore
- Completed approximately \$1.8 billion in aviation transactions since 2010
- Approximately \$1.7 billion assets under management as of June 30, 2014

Overview of Sciens Capital Management LLC

- Independent alternative investment manager located in New York City
- \$5.6 billion in assets under management

SASOF III LP

Market Opportunity

- Commercial aircraft and their parts are governed by sovereign regulatory bodies
- Financing for used aircraft purchases has dried up reducing both the demand for and the prices of used aircraft
- Aircraft values have not recovered from the 2008 financial crisis
- Used aircraft and aircraft parts are complex requiring extensive technical and regulatory knowledge
- Used aircraft and aircraft parts are typically priced substantially below new aircraft and aircraft part prices
- Aircraft operating lease yields have risen since the 2008 financial crisis
- Active secondary market for leased aircraft
- The combination of these factors makes purchasing older aircraft for lease management and / or part-out economically attractive

SASOF III LP

Fund Overview

- Target fund size is \$750 million with a hard cap of \$800 million
- Net return target of 15%

Fund Strategy

- Acquire, lease, and trade aircraft, aircraft engines, and aircraft parts
- Focus on in-production in-demand mid-life aircraft and engines
- Supply Original Equipment Manufacturer (OEM) parts to airlines by dismantling surplus aircraft and consigning the parts to consignment shops
- Diversify the portfolio by aircraft type and engine type

SASOF III LP

Key Investment Considerations

- Access to an industry leader in the aircraft leasing and part-out industry
- Experience adjusting to varying aircraft market cycles
- Able to shift between leasing and part-outs to structure trades
- Alignment of interests, as the Principals of the General Partner together with an affiliate of Sciens Capital Management LLC will also invest in the fund

Key Investment Risks

- An economic downturn could result in more aircraft on the ground
 - Aircraft in air still need regular maintenance
 - Able to shift between leasing and part-outs and manage both transactions
- Technical obsolescence of aircraft and aircraft parts
 - Fund focus will be on in-production in-demand aircraft and engines
 - New technology takes many years to influence aviation markets

SASOF III LP

Apollo Aviation Investment Team

- Bill Hoffman, Chairman and Co-founder: involved in aviation transactions since 1994
- Robert Korn, President and Co-founder: over 20 years in the aviation industry
- Dave Treitel, Managing Director: joined Apollo in 2010, previously was the CEO of a leading aviation consultancy company

Performance

- Since 2010, Apollo has invested over \$1.8 billion in 160 aircraft, 10 airframes, and 50 engines
- 16.4% net IRR achieved on all realized and unrealized portfolios through June 30, 2014
- 1.4x net multiple achieved on all realized and unrealized portfolios through June 30, 2014
- 17.6% net IRR projected on PSERS' investment in Sciens Aviation Special Opportunities Investment Fund II (SASOF II) through December 31, 2014
- 1.6x net multiple projected on PSERS' investment in SASOF II through December 31, 2014

SASOF III LP

Portfolio Use

- Invest \$150 million in SASOF III LP and include this investment in the Absolute Return Program

History with PSERS

- This investment will be PSERS' second investment with Apollo Aviation
 - SASOF II was approved at the December 5, 2012 Finance Committee meeting

Other

- Relationship with Aksia: None
- Placement Agents: None
- Political Contributions in PA: None
- Introduction Source: PSERS is an investor in SASOF II

SASOF III LP

Recommendation

Staff, together with Aksia LLC, recommends that the Board invest an amount not to exceed \$150 million plus reasonable normal investment expenses in SASOF III LP.

DISCLAIMER: 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.



Absolute Return Program Allocation

SASOF III LP

January 21, 2015

Robert E. Little, CPA
Portfolio Manager, Non-Traditional Investment
Strategies

Manager Recommendation Memo

January 07, 2015

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

Re: SASOF III LP

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and herewith recommends a direct allocation to SASOF III LP ("SASOF III"), in line with PSERS Investment Policy Statement, Objectives, and Guidelines.

Apollo Aviation Management Limited and Apollo Aviation Fund Management LLC (collectively, the "Investment Manager" or "Apollo") are investment advisors and managers of privately negotiated aviation investments. The Investment Manager is launching its third commingled fund SASOF III, for external investors to purchase used aviation assets, operate and lease the assets to third party airlines, and manage the eventual liquidation of the portfolio by selling assets individually, as a portfolio sale, or disassembling the assets for sale by third party consignment firms to extract the remaining value of their useful life.

Apollo is viewed as one of the most well-known and capable physical asset investors specializing in aviation and has successfully executed its strategy since inception in 2002, first on a deal-by-deal basis and in the form of managed accounts, and then later in fund form. In the earliest days of the Investment Manager's history, the strategies focused on "end-of-life lease to part out" – a strategy developed to capitalize on the value discrepancy between whole planes and the value of individual parts when sold piece by piece. Over time, and in response to an evolving opportunity set, the Investment Manager has shifted into the leasing segment of aviation asset management. As part of this shift, Apollo raised a \$595 million fund, SASOF II, in which PSERS is presently invested, and successfully completed a partial public market exit of the portfolio in the form of a securitization at the end of 2014. In SASOF III, the Investment Manager is targeting a capital raise of \$750 million as the final close with a hard cap set at \$800 million.

Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines:

- Due diligence of SASOF III's investment process, including a review of the sponsor, investment strategy, market positioning, investment personnel, and risk management;
 - Most recent on-site investment due diligence visit conducted October 10, 2014.
 - The following is a listing of the other relevant points of contact with the manager since the introduction of SASOF III.

Date	Nature of Contact	Aksia Points of Contact
December 17, 2014	Call on operational & investment follow ups	L. O'Connell & V. Ivanson
November 21, 2014	Apollo prices debt in SASOF II securitization	V. Ivanson
August 11, 2014	SASOF II securitization expectations	V. Ivanson
May 9, 2014	SASOF II performance update and timing of lease extensions	V. Ivanson
December 19, 2013	SASOF II investment update and SASOF III introduction	V. Ivanson

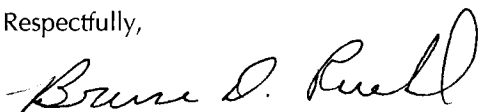
- Due diligence of SASOF III's operations, including a review of its organizational structure, service providers, regulatory and compliance, trade flow process, PPM & LPA, and financial statement analysis;
 - Most recent on-site operational due diligence visit conducted October 14, 2014.
- Evaluation of SASOF III's strategy within the context of the current investment environment; and
- Appropriateness of SASOF III as a component of PSERS' portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in SASOF III, 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 SASOF III. Aksia manager recommendation memos

should be reviewed with other Aksia due diligence materials, including the full Due Diligence Report. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,



Bruce Ruehl
Partner, Head of Portfolio Advisory, Americas



Patrick Adelsbach
Partner, Head of Event Driven