

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

PIMCO BRAVO Fund III, L.P.

High Yield Commitment

James F. Del Gaudio
Portfolio Manager

September 18, 2017



Recommendation:

Staff, together with Aksia, LLC, recommends to the Board a commitment of up to \$250 million to PIMCO BRAVO Fund III, L.P. (“BRAVO III”, “Fund III” or the “Fund”). Pacific Investment Management Company LLC (“PIMCO”) is sponsoring the Fund to employ an opportunistic investment strategy that seeks to capitalize on U.S. and European markets that have been influenced by regulatory reform (e.g., mortgage, real estate, and consumer markets).

Firm Overview:

PIMCO was founded in Newport Beach, California in 1971. PIMCO is one of the world's largest fixed income managers, with a presence in every major bond market. PIMCO started as a subsidiary of Pacific Life Insurance Company to manage separate accounts for institutional clients. In 2000, PIMCO was acquired by Allianz SE (“Allianz”), a large global financial services company based in Germany. PIMCO operates as a separate and autonomous subsidiary of Allianz. Today, PIMCO has over 2,150 employees (over 675 investment professionals) and has offices in Newport Beach, New York, Singapore, Tokyo, London, Sydney, Munich, Zurich, Toronto, Hong Kong, Milan, and Rio de Janeiro. As of June 30, 2017, PIMCO managed \$1.6 trillion in assets, including \$1.2 trillion in third-party client assets:

Segment	AUM ¹	Focus
Alternatives	\$40.9 billion	<ul style="list-style-type: none"> • Hedge Funds • Opportunistic / Distressed
Asset Allocation	\$36.4 billion	<ul style="list-style-type: none"> • Asset Allocation Strategies
Equities	\$25.6 billion	<ul style="list-style-type: none"> • Equity Strategies
Real Return	\$59.5 billion	<ul style="list-style-type: none"> • Real Return Strategies
Fixed Income	\$1,056.5 billion	<ul style="list-style-type: none"> • Total Return • Intermediate • Credit • Long Duration • Income • Global • Cash Management • Emerging Markets • Mortgages • Diversified Income • Municipals • Other

1) Assets reflect those managed on behalf of third-party clients and exclude affiliated assets. Fund of funds assets have been netted from each strategy.

PIMCO has developed a strong alternatives platform over the last decade. The firm applies dedicated resources to a select group of strategies that seek to capitalize on PIMCO’s broad capabilities across public and private credit, global macro, commodities, volatility and real estate. Today, PIMCO has over 100 investment professionals dedicated to the alternatives platform located across three PIMCO offices: Newport Beach, New York, and London.

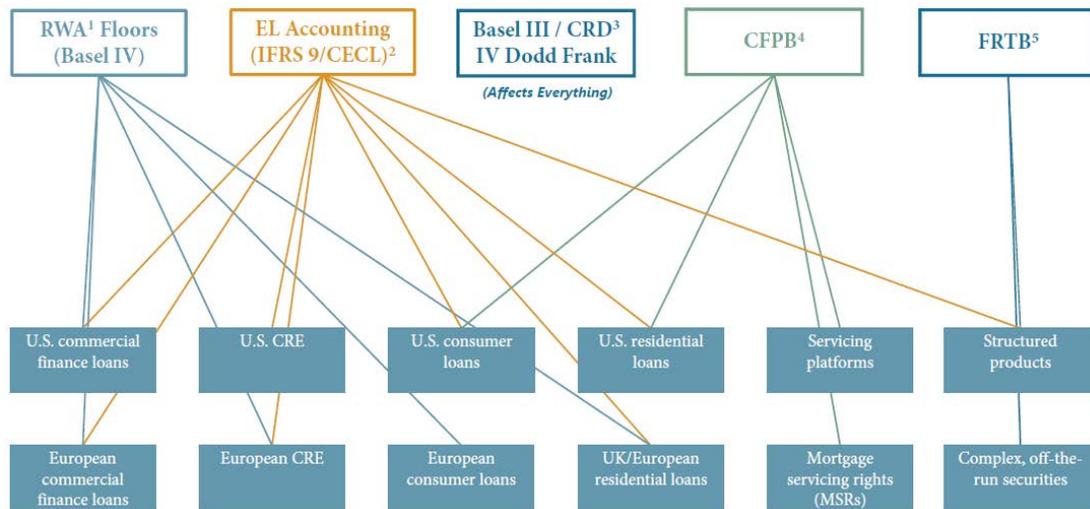
PIMCO first launched the “bank recapitalization and value opportunities” fund series (“BRAVO”) in 2011 when they raised the \$2.4 billion PIMCO BRAVO Fund I, L.P. (“BRAVO I”). In 2013, PIMCO raised the \$5.5 billion PIMCO BRAVO Fund II, L.P. (“BRAVO II”). The target capital raise for BRAVO III is \$3-4 billion with a hard cap of \$5 billion. As of July 31, 2017, the Fund has closed on \$3.1 billion in commitments.

Market Opportunity:

Regulators and policymakers are engaging in financial market re-regulation in an attempt to create a more stable global financial system. The unintended consequences of regulatory reform have amplified dislocations across real and financial assets in public and private markets and in the availability of funding. Pressures on traditional financial business models are expected to further increase as the next wave of regulatory reform nears and the effectiveness of monetary policy wanes. Meanwhile, the de-leveraging cycle continues, particularly across the European banking community. As a result, liquidity is increasingly impaired, and credit supply and flow is inhibited, creating dislocations across public and private markets. Regulations have had a significant impact on bank business models. The timing, scope, and demand for de-regulation is highly uncertain.



The below diagram highlights the complexity and interconnectivity of a few of the key regulatory reforms taking shape globally.



As of 31 March 2017

- 1. Risk Weighted Assets
- 2. Current Expected Credit Losses
- 3. Capital Requirements Directive

- 4. Consumer Financial Protection Bureau Current
- 5. Fundamental Review of the Trading Book

The BRAVO strategy was designed with the flexibility to capitalize on an evolving investment opportunity across markets, asset types, and geographies. For example, BRAVO I sought to capitalize on the swift deleveraging in structured credit and residential non-performing loans (“NPLs”), which were widely held (and being actively sold) by U.S. banks. As prices bottomed and the outlook for fundamentals improved, relative value across the capital structure shifted. Importantly, from a geographic perspective, opportunities in Europe became more abundant. As such, BRAVO II had a greater mix of equity and debt investments as well as geographic exposures. Today, global regulation has systematically downsized the banks amplifying dislocations across markets. BRAVO III will seek to fill the gap that financial institutions have left behind following years of regulatory reform, serving as a lender/liquidity provider in select real estate and consumer markets and may benefit from further non-core asset sales by European institutions.

	2011 BRAVO	2013 BRAVO II	Today BRAVO III
Investment backdrop	<ul style="list-style-type: none"> • Banks are severely undercapitalized and face significant deleveraging pressure • Largest portfolio sales are U.S. residential NPLs • Significant uncertainty regarding the trajectory of future U.S. home prices 	<ul style="list-style-type: none"> • Monetary policy driving demand for safe yield such as core CRE • Real estate fundamentals generally improving, with greater dispersion across Europe • Increasing pace of bank deleveraging and non-core business sales suggests building regulatory pressures 	<ul style="list-style-type: none"> • Lending: Supply and demand for credit is unbalanced in certain markets • Liquidity: Public and private markets dislocations driven by reduction in traditional liquidity providers/market-makers • Deleveraging: European institutions continue to repair balance sheets and exit from non-core businesses
BRAVO strategy	Capitalize on bank deleveraging	Position for a recovery in real estate fundamentals	Do what banks can't or won't do



Portfolio Fit:

A commitment to Fund III allows PSERS to expand its relationship with a high-conviction manager that is well positioned to execute their opportunistic investment strategy focused on U.S. and European markets that have been influenced by regulatory reform (e.g., mortgage, real estate, and consumer markets). The Fund's return target is in-line with PSERS' objective for the High Yield portfolio of generating double-digit net returns over the life of the investment. In addition, PSERS' High Yield portfolio is currently weighted to managers focused on corporate lending which has become more competitive in the current market environment. A commitment to the Fund will help further diversify and increase PSERS' High Yield portfolio to asset backed lending.

BRAVO III will be allocated to the Real Assets bucket of PSERS' High Yield portfolio and the table below summarizes PSERS' projected exposure inclusive of a recommended \$250 million commitment:

Investment Type (\$M)	Active Commitments ¹	%	Market Value	%	Unfunded ¹	%	Total Exposure ¹	%
Opportunistic	\$ 3,600.0	39.2%	\$ 2,005.3	46.8%	\$ 962.8	31.6%	\$ 2,968.1	40.5%
Senior Loans	3,482.2	37.9%	1,318.2	30.8%	1,173.8	38.5%	2,492.0	34.0%
Real Assets	1,251.2	13.6%	653.3	15.2%	460.0	15.1%	1,113.3	15.2%
Mezzanine	854.4	9.3%	309.7	7.2%	449.5	14.8%	759.2	10.4%
Total	\$ 9,187.8	100.0%	\$ 4,286.5	100.0%	\$ 3,046.1	100.0%	\$ 7,332.5	100.0%

(1) Include post Q1'2017 pending/closed commitments.

Investment Strategy:

BRAVO III is an opportunistic fund formed to capitalize on dislocations stemming from the unintended consequences of regulatory reform (see *Market Opportunity*). PIMCO expects to employ a comprehensive relative value approach in analyzing opportunities across public and private markets, geographies, and capital structures. The strategy will primarily target opportunities across residential real estate, commercial real estate, specialty finance, and other financials. PIMCO implements a consistent, disciplined investment selection process centered on analyzing the intrinsic value of investment opportunities. PIMCO's investment process focuses on detailed asset level and deal structure underwriting with a focus on pricing and structuring, active management and exit strategies. Additionally, PIMCO believes that macroeconomic risks remain extremely important and, as a result, PIMCO will leverage the firm's macro insights in connection with analyzing investment opportunities. It was noted during diligence that the BRAVO investment team believes we are late in the credit and business cycle, and that they are underwriting to, and expecting a recession to occur during the Fund's term. As a result, PIMCO intends to position the BRAVO III portfolio in resilient assets. In terms of geography, PIMCO currently expects an even allocation between the U.S. and Europe.

The table below highlights BRAVO III's target allocation by investment type:

Investment Type	Target Allocation	Illustrative Examples
Residential	40%	<ul style="list-style-type: none"> Whole Loans Residential Land / Development Liquid RMBS / ABS CDOs Other residential mortgage credit related including entity/platform investments
Commercial	40%	<ul style="list-style-type: none"> Loans Direct Real Estate CMBS / CRE CDOs Other CRE related including entity/platform investments
Specialty Finance	10%	<ul style="list-style-type: none"> Consumer Loans Commercial Finance Loans Other receivables or previously asset-backed related including entity/platform investments
Financials / Other	10%	<ul style="list-style-type: none"> Bank Debt or Equity Regulatory Capital / Risk Transfer Trades TruPS CDOs / CLOs Distressed Credit



Residential Non-Qualified Mortgage Strategy:

An area of focus within the residential allocation includes off-market opportunities to acquire, through forward-flow agreements, newly-originated mortgage loans over the Fund's investment period. These loans, with a loan-to-value ("LTV") at entry around 70%, are made to borrowers with FICO scores generally around 700 who fall outside the scope of the Qualified Mortgage rule and earn mid-to-high single digit unlevered yields. Using repurchase agreements ("repos") for leverage, levered yields can approach low- to mid-double digits. The assets naturally de-risk over time through amortizations and prepayments. Exit options, while dependent on the market environment, could include securitization or whole loan sales.

Investment Structure:

PIMCO's investment process begins by evaluating investments on an unlevered basis across multiple scenarios. As part of this analysis, PIMCO models the distribution of cash flows to ensure they are compensated for variability/volatility. At this point – i.e., after incorporating micro, macro, and analytics inputs – they take into account how to fund the assets – e.g., with fund equity capital or with a combination of fund equity and direct borrowing. This is where they determine whether (for instance) a senior, slightly levered asset has a risk/reward profile preferable to that of an asset without any financial leverage but with significant structural or operating leverage, such as a subordinate debt position or equity. It is frequently the case in stress scenarios that senior debt offers better downside protection to capital losses, while mezzanine or equity profiles can be wiped out. Often, single investments will comprise elements of both senior secured debt and equity. Financial leverage is typically employed asset by asset and, in fact, by specific elements of the underlying investment. The ability to employ leverage permits the strategy to seek attractive risk-reward profiles, at both the individual investment and at the portfolio level.

BRAVO III anticipates utilizing a subscription facility, enabling a more efficient use of working capital. Fund liquidity, availability of financing, typical financing terms and covenants, pricing, haircuts, asset yield, expected hold period, asset duration and joint venture considerations are some of the factors taken into account with respect to fund- and asset-level financing decisions.

There are no specific hedging requirements for the Fund. In implementing the Fund's investment strategy, PIMCO may utilize whatever investment, hedging, arbitrage or financing techniques it deems to be advisable. The Fund may hedge currency exposure through various methods including, but not limited to, forward contracts, futures, swaps, and options, and may hedge interest rate exposure through various means including caps or interest rate swaps.



Investment Instruments:

The table below provides a summary of the principal investment instruments the Fund will use to implement its investment strategy:

Instrument	Description
Private Credit Assets	Performing, sub-performing, re-performing or non-performing loans and other private credit assets (as well as participations and other interests therein), including commercial and residential mortgage loans (any of which may convert to real estate holdings), consumer loans (such as credit card receivables, automobile loans, student loans and peer-to-peer loans) and commercial finance loans (such as SME (i.e., small and medium-sized enterprise) loans and trade financings), and/or servicing or similar rights relating to such loans and other assets (including leases).
Structured Products	Structured products, securitizations and other asset-backed securities backed by assets of any type, including non-agency residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS"), collateralized debt obligations ("CDOs"), collateralized loan obligations ("CLOs") and repackaged securities (collectively, "Structured Investments").
Residential & Commercial Real Estate	Including land, for-sale and for-rent housing, office, hotel, retail and industrial investments
Public or Private Equity or Equity-Linked Securities	Investments in public or private equity securities, equity-linked securities and/or debt instruments (including loans) of companies and other entities (whether stressed, distressed or otherwise on an opportunistic basis), including banks, lending platforms and other financial institutions, entities created to provide capital relief to financial institutions, real estate investment trusts and other opportunities

Investment Team:

PIMCO identified ~80 portfolio management professionals as members of the BRAVO investment team. Fund III utilizes an established BRAVO investment committee ("BIC") that is responsible for reviewing and approving certain Fund transactions and asset management decisions. Dan Ivascyn (PIMCO Group CIO) is the senior chair of the committee while Josh Anderson and Christian Stracke serve as co-chairs. There are currently 12 members on the BIC, representing a diverse range of expertise that seeks to incorporate cross-sector perspectives and relative value input.

The following table summarizes the composition of the BIC:

Name	Role	Yrs. Experience PIMCO / Total	Prior Experience
Daniel Ivascyn	Managing Director	18 / 25	Bear Stearns
Joshua Anderson	Managing Director	14 / 22	Merrill Lynch
Alfred Murata	Managing Director	15 / 17	Nikko Financial Technologies
John Murray	Managing Director	7 / 17	JER Partners
Christian Stracke	Managing Director	9 / 20	CreditSights
Laurent Luccioni	Managing Director	4 / 19	MGPA
Richard LeBrun	Managing Director	5 / 17	Ropes & Gray
Devin Chen	Executive Vice President	6 / 20	JER Partners
Harin de Silva	Executive Vice President	7 / 22	Merrill Lynch
Kristofer Kraus	Executive Vice President	6 / 22	Barclays Capital
Jason Steiner	Executive Vice President	7 / 16	Centerline Capital Group
Marco van Akkeren	Executive Vice President	8 / 18	Goldman Sachs



In addition to the BIC which functions more as a forum for final approval, the Fund will benefit from four sub-committees, covering U.S. commercial real estate, European commercial real estate, residential and specialty finance/special situations. Each sub-committee meets on a regular basis, is led by key members of the BIC and is comprised primarily of specialists in the asset class of focus but typically includes some overlap among the various sub-committees' membership. Each sub-committee of the BIC operates pursuant to protocols that contain approval and supporting documentation requirements for different types of matters (both at the investment and asset management stage), and which generally require the sub-committee to first approve matters requiring the full investment committee's approval. Investment ideas are typically generated by portfolio managers across the fund's various sleeves, with the applicable sub-committees then evaluating those opportunities which they believe are attractive for the fund.

Investment Highlights:

Stable & Experienced BRAVO Investment Team
BRAVO's ~80-person investment team, based in the U.S. and Europe, possesses a diverse range of backgrounds spanning originations, capital markets, real estate acquisitions and asset management. These backgrounds, insights and relationships are expected to be critical to the implementation and management of the fund. PIMCO has also established the BIC, which is currently comprised of 12 senior professionals from multiple disciplines (including seven PIMCO managing directors) and seeks to incorporate cross-sector perspectives and relative value input. The senior members of PIMCO's alternative team have largely been in place since the launch of BRAVO II in 2013.
Strong PIMCO Platform
As an organization, PIMCO is one of the most active participants in financial markets globally. The resulting breadth and depth of market information creates a unique understanding of and ability to identify relative value opportunities across the capital structure. Furthermore, PIMCO believes its ability to providing comprehensive solutions across the capital structure directly contributes to the firm's reputation as compelling transaction counterparty. Separately, PIMCO's macro expertise is expected to provide a unifying framework for evaluating opportunities and, in conjunction with asset-level analysis, underwriting prospective investments for the Fund. According to Aksia, PIMCO's analytical and risk management infrastructure is best-in-class and a key point of differentiation relative to its private markets competitors.
Compelling Market Opportunity / Portfolio Fit
<p>As discussed above (<i>see Market Opportunity</i>), the unintended consequences of post-crisis financial regulations, including recent dislocations in financial markets, have become increasingly apparent. PIMCO believes this will create a wide variety of investment opportunities, as markets are compelled to adapt to a world where banks are less reliable sources for financing or liquidity. In comparison to the market environment experienced by the first two BRAVO funds, today liquid securitized credit markets trade at meaningfully lower yields, underlying fundamentals are generally stronger and the buyer base has expanded from hedge funds and private equity vehicles to include the real money community. This has resulted in a shift in the likely opportunity set for Fund III to private market investments including debt origination and private equity.</p> <p>This dynamic has the potential to create a compelling investment opportunity for alternative capital providers such as PIMCO, whose primary objective (via Fund III) is to target opportunities across residential real estate, commercial real estate, specialty finance and other financials. In addition, PSERS' High Yield portfolio is weighted to managers focused on corporate lending which has become more competitive in the current market environment. A commitment to the Fund will help further diversify and increase PSERS' High Yield portfolio to the asset backed lending space.</p>
PSERS Track Record with PIMCO
Over the course of 30 years, PSERS has invested in various PIMCO strategies/products (approximately \$2.5 billion in original commitments), and currently has \$1.4 billion in market value as of March 31, 2017. Since 1987, PIMCO has generated net of fee alpha (total return minus benchmark return minus all fees and costs) in excess of \$550 million for PSERS.



Strong BRAVO I & II Performance to Date

From inception through June 30, 2017, BRAVO I has generated a 22.1% net IRR and 1.8x net MoC with the vast majority of positions liquidated. BRAVO I elected to use both of its one year term extension options. The final extension will expire July 13, 2018. BRAVO II has generated an 11.8% net IRR and 1.3x net MoC from inception through June 30, 2017. As Bravo II continues to harvest its investments, PIMCO anticipates achieving a low-teens net IRR. Across BRAVO I and BRAVO II, PIMCO has generated approximately \$3.4 billion net-of-fee value to limited partners.

Staff performed a Direct Alpha analysis of PIMCO's BRAVO fund series track record against both the Bloomberg Barclays US Corporate High Yield Total Return Index ("US HY Index") and FTSE EPRA/NAREIT Developed Total Return Index ("Global REIT Index"). As of June 30, 2017, in aggregate, the BRAVO fund series generated positive alpha relative to the US HY Index and Global REIT Index of 9.2% and 7.7%, respectively.

Investment / Risk Considerations:

Lack of Investment Guidelines / Allocation of BRAVO Opportunities Within PIMCO

BRAVO III has a broad, flexible investment mandate, and will not be subject to any formal investment guidelines, limitations or restrictions other than with regard to leverage (discussed further below). As such, BRAVO III has the ability to invest in primary and secondary markets cross public and private assets. This has the potential to raise questions with regard to allocation of investment opportunities between Fund III and other PIMCO products. PIMCO has also communicated that they do not intend to launch any single-sleeve strategies that would compete with BRAVO III.

Staff views PIMCO's flexible investment mandate as a key competitive advantage to capitalizing on the breadth of the opportunity set. A flexible mandate can allow Fund III to remain nimble, provide downside protection and maximize the likelihood of achieving attractive risk-adjusted returns. BRAVO's investment mandate is well aligned with the breadth and depth of the experience of the individuals working on the fund's investment team.

Leverage Profile

The Fund will be permitted to employ leverage and otherwise incur indebtedness with respect to the portfolio both on a recourse and non-recourse basis (typically obtained through repo, bank facilities and subscription lines). The BRAVO strategy is expected to use leverage of approximately 2x debt-to-equity at the fund level (2.5x maximum). This guideline excludes securitization and certain government guaranteed financing (if available). Certain financing agreements will be mark-to-market and as such, Fund III faces counterparty/market risk. According to Aksia, PIMCO has a large finance team dedicated to its alternatives group and it is an experienced borrower in public markets. Furthermore, PIMCO's importance as a counterparty (i.e. to banks) should reduce the likelihood of having financing pulled due to mark-to-market events.

Liquidity Profile

The Fund expects to invest a significant portion of the portfolio in investments where limited or no liquidity will be available. The Fund is expected to be invested within three-years of its initial closing (the "Investment Period"), with the ability to fully recycle proceeds throughout the Investment Period. Additionally, PIMCO has the ability to draw unfunded commitments throughout the term of the fund for limited purposes. The total term of the Fund will be seven years from the initial closing date, subject to up to two consecutive one-year extensions at the discretion of the General Partner.

Competition

BRAVO III has a diverse mandate and therefore encounters various competitors across different sectors, with the competitor universe encompassing traditional real-estate investment firms along with specialty finance asset managers. Common asset managers that compete in similar sectors such as BRAVO III include Blackstone, Lone Star, and Cerberus to name a few. While there is no question that PIMCO will face competition within certain target strategies, the Fund's flexibility and nimbleness to pivot across opportunities is unique.



Alignment of Interest / GP Commitment

PIMCO does not invest its firm balance sheet and therefore will not make a GP commitment to the Fund. However, qualified employees are eligible to invest in the Fund. In practice, senior employees and members of the portfolio management team for each product have typically made significant investments in PIMCO products. Employee investments in BRAVO III through the most recent close total more than \$36 million. Furthermore, PIMCO employees have voluntarily invested over \$480 million (after tax) across PIMCO alternative mandates.

PSERS History & Performance:

PSERS has a long-standing relationship with PIMCO, dating back to 1987. Over the course of the last thirty years, the relationship has evolved to a strategic partnership and PIMCO has managed a broad range of mandates across fixed income, alternatives, and equities.

Starting in 1987, the first mandate PIMCO managed was a \$480 million Core Total Return portfolio, and in 1999, PSERS funded a \$75 million allocation to PIMCO's StocksPLUS portfolio. In 2008, PSERS decided to allocate to PIMCO's growing Absolute Return platform, and committed capital to the Fixed Income Absolute Return (PARS V) portfolio and the Global Credit Relative Value strategy (GCOF).

In 2012, PSERS significantly grew its relationship with PIMCO, funding a \$1 billion Multi-Sector Fixed Income Portfolio, which consisted of Core Fixed Income, High Yield, EM Local, Global Fixed Income, Long Treasuries, and a Local Overlay sleeve. The multi-sector fund-of-one structure was created to serve as a slice of PSERS' Fixed Income portfolio, facilitate derivatives trading, as well as bolster the strategic partnership in which PSERS has customized access to a broad range of PIMCO's platform (e.g. solutions studies, thought leadership, senior PMs, ad hoc requests, etc.). Individual sleeve allocations are driven by PSERS' policy benchmark. In 2012, PSERS grew its Absolute Return portfolio and allocated to PIMCO's Volatility Arbitrage fund (MAV). In 2015, PSERS allocated to the Commodity Alpha fund (PCAF), and is currently invested in a total of four of PIMCO's absolute return funds.

Investment Committee Disclosure:

Relationship with Aksia, LLC:	None Disclosed
Introduction Source:	Fund Sponsor
Placement Agent:	<p>None used for PSERS. The Fund's placement agent is PIMCO Investments LLC ("PIMCO Investments"), a wholly-owned subsidiary of PIMCO. The Fund or PIMCO Investments may engage other affiliates or non-affiliates of PIMCO to serve as placement agents, sub-placement agents or distribution agents, or to otherwise participate directly or indirectly in the distribution of the interests in the Fund.</p> <p>The Fund will not directly pay any compensation to placement agents. PIMCO may pay a portion or percentage of any fees or other benefit that it receives from the Fund to persons who act as placement agent in connection with the sale of Interests. In addition, sales charges may be imposed by third-party placement agents on limited partners investing in the Fund through such placement agents.</p>
PA Political Contributions:	None Disclosed
PA Presence:	None Disclosed
Potential Conflicts:	We are not aware of PIMCO having any investment conflicts.
First Time Fund With PSERS:	No (PIMCO), Yes (BRAVO fund series)
PSERS Allocation Implementation Committee Approval:	September 18, 2017



Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments James F. Del Gaudio Portfolio Manager
External Consultant:	Aksia, LLC

Manager Recommendation Memo

September 6, 2017

Board of Trustees
Commonwealth of Pennsylvania,
Public School Employees' Retirement System ("PSERS")
5 North Fifth Street
Harrisburg, PA 17101

Re: PIMCO BRAVO Fund III, L.P.

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and herewith recommends a direct allocation to PIMCO BRAVO Fund III, L.P. ("BRAVO III") in line with PSERS Investment Policy Statement, Objectives, and Guidelines. It is further recommended that PSERS commit up to \$250 million to BRAVO III.

PIMCO (the "GP") employs a broad strategy that seeks to take advantage of regulatory changes that have created opportunities in primary and secondary markets across public and private assets. Over the course of the BRAVO series, PIMCO has increasingly shifted resources and investments towards private markets, which is consistent with a broadening opportunity set across a range of private asset-backed investments. We believe that BRAVO III will benefit from the GP's previous allocations to these markets and its pre-existing operating relationships that have resulted, leading to additional deal flow and advantageous sourcing channels.

PIMCO's strategy is supported by its meaningful scale outside of the BRAVO program and by a large, stable and experienced group of senior investment professionals that, while not fully dedicated, spend a material percentage of their respective time on BRAVO. In addition, we believe that the GP's analytical and risk management infrastructure is best-in-class and a key point of differentiation relative to its private markets competitors.

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

- Due diligence of BRAVO 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 13, 2016.
- Due diligence of BRAVO 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 November 28, 2016.
- Evaluation of BRAVO III's strategy within the context of the current investment environment; and
- Appropriateness of BRAVO 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 BRAVO 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 Fund III. This Aksia recommendation memo should be reviewed in conjunction with other Aksia due diligence materials, including the full Due Diligence Report and the Interim Diligence Update. 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,



Patrick Adelsbach
Partner, Head of Credit Strategies



Simon Fludgate
Partner, Head of Operational Due Diligence