



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Bain Capital Distressed and Special Situations 2019 (A), L.P.

High Yield/Private Credit Commitment

James F. Del Gaudio
Senior Portfolio Manager

April 22, 2019



Recommendation:

PSERS Investment Professionals, together with Hamilton Lane Advisors, L.L.C. (“Hamilton Lane”), recommend the Board commit up to \$200 million to Bain Capital Distressed and Special Situations 2019 (A), L.P. (the “Fund”, or “DSS 19”). Bain Capital Credit, LP (“Bain” or the “Firm”) is seeking to raise their third dedicated distressed and special situations fund, DSS 19, which will focus on global special situations opportunities and distressed securities, targeting \$3 billion in commitments.

Firm Overview:

Bain Capital Credit, LP, an affiliate of Bain Capital, LP, is a leading global credit specialist. The Firm was formed as Sankaty Advisors in 1998 by Jonathan Lavine, Managing Partner and CIO, based on the idea that one could successfully apply the same level of rigorous analysis developed in Bain Capital’s Private Equity business to credit investing. With approximately \$39 billion in assets under management as of January 1, 2019, Bain Capital Credit invests across the full spectrum of credit strategies, including leveraged loans, high-yield bonds, distressed debt, direct lending, structured products, non-performing loans (“NPLs”), and equities.

Bain Capital Credit currently has 297 employees in offices throughout the globe: Boston, London, Hong Kong, Madrid, New York, Dublin, Guangzhou, Sydney, Chicago, Melbourne, Seoul, and Mumbai.¹

Strategy	AUM ¹	Focus	Products
Bank Loan & Multi-Asset Credit	\$15B	Dedicated bank loan and liquid opportunistic credit strategies offered in long only or long/short	<ul style="list-style-type: none"> • Global Bank Loans • European Bank Loans • High Income Strategy
Structured Credit	\$9B	Bain Capital Credit managed CLOs and opportunistic investments in CLO Debt and equity	<ul style="list-style-type: none"> • US Managed CLOs • European Managed CLOs • Structured Credit Strategies
Distressed & Special Situations (“DSS”)	\$8B	Distressed debt, capital solutions and opportunistic special situations, including non-performing loans	<ul style="list-style-type: none"> • Global Distressed & Special Situations • Special Situations Europe (“SSE”) • Special Situations Asia (“SSA”)
Direct Lending	\$7B	Senior, unitranche and mezzanine debt in middle market companies	<ul style="list-style-type: none"> • Global Senior Direct Lending • Mezzanine & Junior Capital • Regionally Focused Mandates

Note: Bain Capital Credit AUM estimated as of January 1, 2019 and includes Bain Capital Credit, LP, its subsidiaries and credit vehicles managed by its AIFM affiliate.

PSERS and Bain Capital Credit have a long-standing partnership dating back to 2008. To date, PSERS has committed \$2.05 billion across six Bain-managed funds including:

- \$500 million to Sankaty Credit Opportunities IV, L.P. (“COPS IV”) (2008)
- \$350 million to Bain Capital Distressed and Special Situations 2013 (A), L.P. (“DSS 13”) (2012)
- \$250 million to Bain Capital Distressed and Special Situations 2016 (A), L.P. (“DSS 16”) (2015)
- \$250 million to Bain Capital Middle Market Credit 2010, L.P. (“MMC 10”) (2010)
- \$200 million to Bain Capital Middle Market Credit 2014, L.P. (“MMC 14”) (2013)
- \$500 million to Bain Capital Credit Managed Account (PSERS), L.P. (“PSERS SMA”) (2009)

¹ Headcount data herein as of January 1, 2019 unless noted otherwise. Individuals in the Mumbai office are employed by IndiaRF, a joint venture between Bain Capital Credit, LP and Piramal Enterprises Ltd.



Market Opportunity:

There are secular market forces that exist today driving opportunities in many regions that Bain expects to continue for the foreseeable future. Bain is well positioned to take advantage of stresses and credit market dynamics in select countries and industries that are growing, and may develop into near term cyclical opportunities. The following three broad-based market opportunities are expected to comprise the Fund's focus:

Opportunity	Description
European Non-Performing Loans ("NPLs")	According to PwC, European financial institutions hold over €2 trillion of NPLs and other non-performing and non-core exposures on their balance sheets. Strong regulatory and political pressures on these financial institutions to sell these assets, combined with the financial performance improvement resulting from these sales, mean that the volume of deals coming to the market has been high (over €100 billion in each of 2015, 2016 and 2017). Over €500 billion of portfolio transactions have traded in Europe since 2011. Bain expects this volume will continue to remain high for the foreseeable future.
Asian Special Situations	Over the course of the past decade, a global flood of liquidity has driven an Asia-wide boom in private credit. Credit growth is now slowing, capital flows are reversing, and NPLs are rising. Combined with commodity volatility, and economic and political uncertainty Bain expects a period of sustained credit correction, creating a multi-year investment opportunity set for the Fund. Despite the near- to mid-term headwinds, Bain believe that Asia's long-term growth story remains intact, and this growth will necessitate capital investment. Within the Asian Pacific region, Bain is primarily focused on Australia, China, India, and Southeast Asia.
North America Distressed & Special Situations	Late-cycle signs are beginning to show, such as record issuance, lower quality credit documentation, and aggressive sponsor actions towards creditors. While Bain does not anticipate a widespread default cycle to occur imminently, they do believe volatility is likely to increase in the near term. Absent a full-scale wave of defaults, they are still observing cracks in the system that are presenting interesting distressed and special situation opportunities with certain sectors experiencing distress that Bain is monitoring on an ongoing basis.

Portfolio Fit:

A commitment to the Fund allows PSERS to further continue its relationship with a high-conviction manager. The Fund's return target (~15% net) is in-line with PSERS' objective for the High Yield/Private Credit portfolio of generating double-digit net returns over the life of the investment. DSS 19 will be allocated to the Opportunistic bucket of PSERS' High Yield/Private Credit portfolio and the table below summarizes PSERS' projected exposure inclusive of a recommended \$200 million commitment:

Investment Type (\$M)	Market Value	%	Unfunded¹	%	Total Exposure¹	%
Opportunistic	\$ 2,240.9	44.6%	\$ 942.6	30.9%	\$ 3,183.5	39.4%
Senior Loans	1,544.5	30.7%	770.6	25.3%	2,315.0	28.7%
Real Assets	748.9	14.9%	927.5	30.4%	1,676.4	20.8%
Mezzanine	493.5	9.8%	405.7	13.3%	899.1	11.1%
Total	\$ 5,027.7	100.0%	\$ 3,046.4	100.0%	\$ 8,074.1	100.0%

(1) As of December 31, 2018. Includes post Q4'2018 pending/closed commitments.



Investment Strategy:

DSS 19 is designed to invest across multiple geographies and sectors, capitalizing on opportunities that the investment team believes can persist through a variety of market conditions. The following three core investment themes are expected to be meaningful contributors to DSS 19:

- **Buying Distressed Assets at Discounted Valuations:** Capitalize upon an expected credit contraction and associated defaults in the US and Europe, while taking advantage of opportunities in other markets where global or localized credit contraction poses risks and challenges for issuers.
- **Purchasing Assets from Stressed Sellers:** Capitalize on the sale of assets in over-levered markets where regulatory pressures are driving less-price sensitive dispositions. Specifically, Bain believes non-performing loans (“NPLs”) in Europe and Asia present attractive opportunities.
- **Providing Customized Financings:** Structure solutions where companies require specialized financing. These deals may take the form of idiosyncratic or thematic opportunities, and can provide investors with secure, credit-like structuring and asset coverage, while still offering upside potential.

The Firm maintains a flexible investment philosophy, investing across the capital structure in debt or equity securities. Similar to prior funds, Bain will adhere to the following guiding principles:

- Seek to capitalize on complexity
- Focus on seeking to protect downside risk
- Provide liquidity when capital is scarce
- Be proximate to the opportunity set
- Utilize flexible capital and their resource advantage to build portfolios that are “cycle agnostic”

Bain anticipates that DSS 19 will have between 30-60 positions and will be invested in a diverse mix of securities, industries, and geographies and that this mix will change over time based on market conditions. Due to the Fund's flexibility, it is unknown what the actual investment allocation will be at this point in time as it will depend on the opportunity set in the market over the course of the investment period. That said, if they were to design a preferred allocation for the fund, Bain would like to see the fund balanced across core geographies: 30-40% North America, 30-40% Europe, and 20-40% Asia Pacific. Within Asia, Bain is primarily focused on Australia, China, India, and Southeast Asia. In addition, due to their belief that the corporate distressed opportunity set will be greater during the investment period of DSS 19, Bain expects the corporate distressed strategy to be 35-60% of the fund, purchasing from stressed sellers to be 30-40%, and the balance to be customized financings.

Bain Capital Credit has developed a robust proprietary global sourcing network. They have invested heavily to build out their global platform, putting resources proximate to the best opportunities they see and enhancing the team's skillset in areas such as real estate, special situations, corporate turnarounds and specific geographies. The broader Bain Capital organization has been active in Europe, Asia, and North America for 18 years and through an extensive network of advisors, financial intermediaries, and servicers, they have the ability to source opportunities that may not be widely followed. Wherever possible, Bain's aim is to limit competition and engage in bilateral transactions within their network where they seek to achieve attractive pricing and drive preferred outcomes.

Investment Structure:

Beyond a capital call line primarily used to manage working capital, Bain does not expect to use additional fund level leverage to enhance the Fund's returns. That said, the Fund's governing documents do permit borrowings up to 20% of aggregate capital commitments (in addition to the capital call line). With regard to foreign currency risk, Bain typically fully hedges currency exposures back to USD.



Investment Instruments:

As discussed above, DSS 19 is equipped to invest across multiple geographies, industries, and security types under a variety of structures and position sizes. Please see below for description of Bain's primary security types utilized across their distressed and special situations strategy:

Instrument Type	Instrument Description
Senior, Secured Debt	<p>The Fund expects at times to invest in bank loans and other forms of senior, secured debt. The loans invested in by the Fund will likely include term loans and revolving loans, may pay interest at a fixed or floating rate and may be senior or subordinated. In addition, the Fund expects to make investments in stressed or distressed bank loans, which are likely to be below investment-grade and are often less liquid than performing bank loans. The Fund may also invest in Debtor in Possession ("DIP") loans, which are superior priority loans issued to provide companies working capital while they are in bankruptcy.</p> <p>The Fund's NPL and corporate portfolio investments may include underlying senior capital positions.</p>
Junior, Unsecured Debt	<p>The Fund's investments in unsecured debt may take different forms including, but not limited to, publically traded high yield bonds trading at distressed prices in the secondary market as well as private capital solutions, which are typically contractually or structurally subordinate to senior indebtedness or effectively subordinated as a result of being unsecured debt. Typically, these investments are structured to seek credit like downside protection and yield with equity upside in the form of warrants or preferred equity.</p> <p>The Fund's NPL and corporate portfolio investments may include underlying junior capital positions.</p>
Post Re-Organization Equity	<p>The Fund may invest in pre- and post-restructuring corporate distressed investments. In certain cases, the Fund may exert significant influence during the restructuring process, subsequently owning reorganized equity and becoming a value-added investor with board rights upon completion of a restructuring. In other instances, the Fund may invest in post-reorganization equity that is held by unnatural investors as a result of a restructuring.</p>
Special Situations (Non-Performing Loans, Distressed Real Estate, and Equities)	<p>The Fund intends to capitalize on forced sellers of NPLs and the sale of non-core assets and business units. The Fund may provide capital to special situation investment opportunities in the form of equity capital. Examples of such investments include (but are not limited to) capital invested in real estate assets and capital used to fund the creation of platforms in capital intensive sectors. It is possible that these equity investments may be unlevered and therefore provide the Fund with first dollar risk.</p> <p>Additionally, the Fund may provide customized financing solutions to companies in the form of structured equity with an assortment of corporate governance and economic rights including board of director participation.</p>



Investment Team:

Jeff Robinson (Managing Director, Head of Distressed & Special Situations), based in Boston, MA, is the Portfolio Manager for DSS 19. Bain Capital Credit currently has 297 employees (144 investment professionals) in offices throughout the globe: Boston, London, Hong Kong, Madrid, New York, Dublin, Guangzhou, Sydney, Chicago, Melbourne, Seoul and Mumbai.² Of the Firm's 144 investment professionals, 63 are dedicated to the Firm's DSS vertical. The table below summarizes the experience of Bain Capital Credit's senior investment professionals (Managing Director level and above) dedicated to the Firm's DSS strategy and Credit Committee members not fully dedicated to the DSS strategy:

Name	Role	Yrs. Experience Bain / Total	Prior Experience
Jonathan Lavine ⁽³⁾	Co-Managing Partner, Bain Capital; CIO & Founder, Bain Capital Credit Credit Committee Member	26 / 29	Drexel Burnham Lambert, 1988-1990 Gleacher & Co., 1990 McKinsey & Company, 1991 & 1992-1993
Jeff Hawkins ⁽³⁾	MD, Deputy Managing Partner Credit Committee Member	18 / 24	Pyramid Research, 1992-1995 Ropes & Gray, 1997-2001
Jeff Robinson ⁽³⁾	MD, DSS Portfolio Manager, Head of Distressed & Special Situations Credit Committee Member	16 / 26	Logicon R&D Associates, 1991-1994 Strategic Decisions Group, 1996-2000 RSA Security, 2000-2002
Alon Avner ⁽³⁾	MD, Head of Europe Credit Committee Member	13 / 25	Creo/Scitex Corp., 1993-1996 Comverse Technology, Inc., 1996-1998 Paspas2 Inc., 1999-2000 Bain & Company, 2000-2006
Barnaby Lyons ⁽³⁾	MD, Head of Asia	13 / 15	Bain & Company, 2004-2006
Brad Palmer	MD	6 / 27	Unilever, 1994-1998 Bain & Co, 1998-1999 OC&C Strategy Consultants, 1999-2003 Energis, 2003-2006
Fabio Longo	MD	5 / 15	Goldman Sachs, 2004-2007 Fortress Investment Group, 2007-2008 Mubadala Development Company, 2008-2009 Apollo Global Management, 2010-2013
Kei Chua	MD	3 / 24	Schroders Group, 1995-1996 Donaldson, Lufkin & Jenrette, 1996-1999 Cerberus Capital Management, 1999-2000 Unitas Capital, 2000-2011 Mount Kellett Capital Mgmt. Asia, 2012-2016
Mike Bevacqua	MD	20 / 29	United States Marine Corps, 1988-1992 NationsBank, 1994-1996 Capital USA, 1996-1998 First Union Capital Markets, 1998-1999
Sarit Chopra	MD	3 / 26	KPMG, 1993-2003 Standard Chartered Bank, 2003-2015
Vikram Punwani	MD	16 / 19	Bain & Company, 1998-2000

² Headcount data herein as of January 1, 2019 unless noted otherwise. Individuals in the Mumbai office are employed by IndiaRF, a joint venture between Bain Capital Credit, LP and Piramal Enterprises Ltd.

³ Denotes Key Person for DSS 19.



Name	Role	Yrs. Experience Bain / Total	Prior Experience
Tim Barns	MD Credit Committee Member	17 / 40	Ingersoll Rand, 1979-1982 European American Bank, 1982-1989 Bank Boston 1989-1998 Cypress Tree, 1990-2001
Michael Ewald ⁽³⁾	MD, Head of Private Credit Credit Committee Member	18 / 23	Credit Suisse First Boston, 1994-1995 Bain & Company, 1995-1998
Christopher Linneman	MD, Head of New York Credit Committee Member	4 / 34	Drexel, Burnham, 1985-1990 Warburg Pincus, 1990-1994 JP Morgan, 1994-2014
Viva Hyatt ⁽³⁾	MD, Head of Industry Research Credit Committee Member	16 / 22	Arthur Andersen, 1995-1997 The Boston Consulting Group, 1998-2002
John Wright ⁽³⁾	MD, Head of Structured Products Credit Committee Member	18 / 20	Evergreen Investments, 1999-2000

Within the DSS strategy, all investments (excluding toe-hold / information positions) are approved by a credit committee that consists of senior members of the Bain Capital Credit team. Every credit committee is comprised of at least three of the named committee members (nine total members), who are selected based on strategy and geography. In addition, credit committees include an applicable portfolio manager, the regional strategy head, and anyone else with expertise relevant to the deal's industry, strategy, geography, etc., and there may be overlap between these participating roles and the required committee member seats.

The DSS team is supported by the 33-person industry research team at Bain Capital Credit led by Viva Hyatt (Key Person and Credit Committee member). Additionally, the DSS team will leverage resources and insight from their Bain Capital affiliates, such as Bain Capital Private Equity, Bain Capital Ventures, and Bain Capital Real Estate.

Investment Highlights:

- Flexible Investment Strategy
- Large and Experienced Investment Team
- DSS 16 - Strong Performance to Date
- Strong Overall DSS Strategy Track Record

Investment / Risk Considerations:

- PSERS HY/Private Credit Portfolio Exposure to Bain Capital Credit
- DSS 13 – Absolute Performance
- Larger Pool of Capital / Allocation of Investment Opportunities Across Firm Products
- Liquidity & Leverage Profile



PSERS History & Performance:

Bain Capital Credit represents PSERS' largest total exposure (NAV plus Unfunded Commitments) across the High Yield / Private Credit portfolio at \$1,065.6 million as of December 31, 2018. PSERS previously committed \$2.05 billion across six Bain-managed partnerships. The table below summarizes PSERS' performance with Bain Capital Credit as of December 31, 2018:

Fund (\$M)	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
DSS 13	2012	\$ 350.0	\$ 350.0	\$ 229.8	\$ 207.9	6.5%	1.25x
DSS 16	2015	250.0	236.6	18.5	266.1	13.4%	1.20x
Sub-Total Distressed & Special Situations		600.0	586.6	248.3	474.0	7.8%	1.23x
MMC 10	2010	250.0	242.5	267.6	31.2	9.1%	1.23x
MMC 14	2013	200.0	190.0	111.9	116.7	7.0%	1.20x
Sub-Total Middle Market Credit		450.0	432.5	379.4	148.0	8.2%	1.22x
COPS IV	2008	500.0	475.0	666.9	34.2	11.8%	1.48x
PSERS SMA	2009	500.0	500.0	425.0	386.0	8.5%	1.62x
Total Bain Capital Credit		\$ 2,050.0	\$ 1,994.1	\$ 1,719.6	\$ 1,042.2	9.2%	1.38x

Investment Committee Disclosure:

Relationship with Hamilton Lane:	Hamilton Lane has not committed discretionary capital to Bain Capital nor Bain Capital Credit on behalf of its discretionary clients or commingled products.
Introduction Source:	Fund Sponsor
Placement Agent:	Bain Capital Distributors, LLC, an affiliate of the General Partner and the Investment Advisor, will act as a placement agent to the Fund. Additional placement agents may be appointed as well, including in non-US jurisdictions where local placement agents may be required, to assist with the fundraising. Placement agents may be used in select geographies where Bain does not have distribution coverage. The Advisory Fee (management fee) will be offset by any placement agent fees paid by the Fund. Bain has not engaged a placement agent in soliciting business from PSERS, and therefore does not expect any placement agent to receive fees in respect of an investment in the Fund by PSERS.
PA Political Contributions:	None Disclosed
PA Presence:	No
Potential Conflicts:	We are not aware of Bain having any investment conflicts.
First Time Fund With PSERS:	No
PSERS Allocation Implementation Committee Approval:	April 22, 2019

Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments James F. Del Gaudio Senior Manager, Private Credit & Special Situations
External Consultant:	Hamilton Lane



Hamilton Lane

April 11, 2019

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

Re: Bain Capital Distressed & Special Situations 2019, L.P.

Dear Trustees:

Bain Capital Credit, LP (“Bain”) was formed as Sankaty Advisors in 1998 as the credit affiliate of Bain Capital and rebranded in 2016 as Bain Capital Credit. The firm is globally recognized as a reputable private equity and credit investor and has developed a significant presence in each of its core markets. The breadth of the Bain organizations’ businesses allows for collaboration across the platform; the broader Bain platform is additive to the 63-person credit team’s local sourcing efforts through its 144 investment professionals across 12 offices globally. Additionally, the investment team is supported by the industry research group and the dedicated portfolio operations team. The industry research group is credit-focused and comprised of 15 industry teams, which is also expected to serve as an important resource. The investment team leverages the dedicated portfolio operations team to structure investments and provide asset management services to companies in the NPL / REO portfolios. The team and the broader firm are aligned with limited partners through its carried interest distribution and employee co-investment commitment. Bain is targeting \$3 billion in commitments for its third dedicated distressed debt fund, Bain Capital Distressed & Special Situations 2019, L.P. (the “Fund”). Bain expects to hold a first close in April 2019 and a final close in September 2019. The General Partner will commit at least 3.33% of commitments to invest in the Fund.

The General Partner has an opportunistic and flexible investment strategy, targeting a broad spectrum of distressed credit opportunities through three categories of investments: forced seller, customized financing and corporate distressed. Bain expects to invest between 35% and 60% of the Fund in corporate distressed opportunities. The General Partner is capital structure agnostic and seeks to identify opportunities that offer the most attractive risk-adjusted return. Downside protection is emphasized through a preference for seniority, security and guarantees; however, Bain also seeks to structure equity components in transactions to maintain upside potential. Through its opportunistic approach, Bain is able to invest through various market conditions and capture attractive opportunities across market cycles. The General Partner’s brand and reputation in its target markets leads to substantial inbound deal flow; in addition, the investment team leverages the broader Bain platform for diligence and sourcing. Bain leverages its structuring and execution capabilities to underwrite investments with complementary return profiles, maximizing returns while limiting downside risk. By positioning itself as a control investor in NPL and real estate backed portfolio investments, Bain’s Portfolio Operations team is able to manage active portfolios while maintaining downside protection with physical collateral. The Fund will target 30 to 60 debt investments in the range of \$75 million to \$150 million. The General Partner has attractive net returns in Fund II and has generated consistent gross performance with additional upside expected in the unrealized portfolio.

Bain Capital Distressed & Special Situations 2019’s investment thesis can be summarized as follows:

- The General Partner benefits from the firm’s strong brand name and global platform
- Flexible, opportunistic investment approach across geographies, sectors and structures



Hamilton Lane

- Large team with accumulated credit experience across geographies
- Attractive gross performance generated in Fund II, with lessons learned from Fund I

Hamilton Lane's recommendation is based upon the following analytical factors and is made within the context of Commonwealth of Pennsylvania, Public School Employees' Retirement System's ("PSERS") investment guidelines.

- Detailed due diligence, including interviews with industry peers and private markets professionals. The initial review was completed October 15, 2018; the on-site due diligence was conducted March 26, 2019; the Fund was approved by Hamilton Lane's Investment Committee on April 8, 2019 and the recommendation to PSERS was issued April 11, 2019
- 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
- Detailed operational due diligence, including interviews with Bain's back office team to review the controls and processes surrounding the firm's finance, fund administration, tax, legal, compliance, IT, HR, and accounting functions
- 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 High Yield / Private Credit component of the portfolio

The individuals at Hamilton Lane who were involved in the due diligence process for the Fund are:

John Stake – Principal, Bala Cynwyd Office
Patrick Donegan – Analyst, London Office
Fredrik Green – Analyst, London Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$200 million in Bain Capital Distressed & Special Situations 2019, L.P. Hamilton Lane 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. Hamilton Lane does not provide legal or other non-investment-related advice.

Sincerely,

Michael Koenig,
Chief Client Officer

Corina English,
Principal