



**TO:** Pennsylvania School Employee's Retirement System ("PSERS")  
**FROM:** Wilshire Associates ("Wilshire")  
**SUBJECT:** Sankaty Advisors, LLC – Senior Loan Fund  
**DATE:** January 9, 2009

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The purpose of this memorandum is to provide background analysis and recommend Sankaty Advisors, LLC for a Senior Loan mandate. Wilshire believes Sankaty Advisors is an institutional quality firm with deep resources and a highly qualified investment team. The firm's personnel, experience, and industry profile in the market place affords the opportunity to add value in the asset class. PSERS Investment Staff and Wilshire recommend a \$500 million allocation to the proposed strategy.

#### Organization

Sankaty Advisors, an affiliate of Bain Capital, LLC, focuses on Corporate Credit Investing. PSERS has an existing relationship with Sankaty Advisors in a credit opportunities fund. Founded in 1984, Bain Capital is an institutional quality alternative investment firm with approximately \$80 billion in assets under management. Bain Capital affiliate advisors invests in private equity, public equity, leveraged debt asset, venture capital, and global macro strategies. Bain Capital is 100% employee-owned through a partnership owner structure. We believe the partnership structure provides the platform to attract and retain key investment professionals. Employees have invested \$675 million in personal capital across the Sankaty Funds.

Sankaty Advisors invests over the entire capital structure with investment teams organized into 12 focused industry group. Sankaty has extensive experience in leveraged loans, high-yield bonds, distressed debt, mezzanine debt, structured products and equity. The firm employs approximately 70 investment professionals with very little turnover. In addition, the firm prefers utilizing internal talent versus hiring externally, as evident by the fact that all senior managers have been promoted to their current roles from within the organization.

#### Investment Approach

Sankaty employs a bottom-up, fundamental investment process that targets to add value through issue selection and active portfolio management. The bottom-up process attempts to identify attractive risk-adjusted opportunities through analysis of free cash flow, industry attractiveness, industry position, liquidity, and covenant provisions. A portion of value added is shown through the strategy's low historical default rate of 0.7% versus 2.9% for the S&P / LSTA Index. Sankaty leverages their deep investment teams to cover less liquid issues overlooked by a large part of the market.

Once industry teams identify potential candidates a 30 to 40 page credit pack is provided to the investment committee. The investment committee consists of five senior investment professionals: Jonathan Lavin (Director/CIO), Kristin Mugford (Managing Director), Stuart Davies (Managing Director), Tim Barns (Managing Director) and Jon DeSimone (Managing Director). Following a credit's approval, the portfolio manager has discretion to determine the viability of the investment for the portfolio mandate.

The Portfolio Analytics group is responsible for risk management. Portfolio risk is managed by monitoring issuer concentration, industry concentration, and asset class mix. The portfolio will generally hold approximately 100 – 150 positions with an average position size of 0.5% – 1.5%. The maximum position in any security is capped at 3%. The strategy will not use leverage and there is no short selling allowed. In the event of a security default, Sankaty has three individuals on staff dedicated to bankruptcy restructuring.

#### Fees and Terms

Sankaty has offered an attractive investment management fee of 0.50% and no additional performance fee will be assessed.