



September 16, 2013

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

Re: Apollo Investment Fund VIII, L.P.

Dear Trustees:

Apollo Global Management, LLC ("Apollo" or the "Firm") was founded in 1990 and is a leading global alternative investment manager with \$114 billion of assets under management, including \$39 billion of private equity assets. The Firm is seeking to raise \$12 billion for Apollo Investment Fund VIII, L.P. (the "Fund" or "Fund VIII"). The Fund has closed on \$9.6 billion as of September 2013 and is expected to hold a final closing at its hard cap of \$15 billion by the end of 2013. The General Partner will commit 3.5% of the Fund's aggregate commitments. Fund VIII will continue the Firm's strategy of creating value by making contrarian, value-oriented private equity investments in complex businesses and transaction structures. To implement this strategy, Apollo typically relies on three types of investments: distressed investments, corporate carve-outs and opportunistic buyouts, which the Firm believes provides it the flexibility to find attractive value opportunities across varying market cycles. Post investment, Apollo builds on this initial value creation by working closely with management in an effort to enhance the operations of the portfolio companies and to optimize the companies' capital structures. The Fund will target opportunities in which it can make equity investments of \$300 million to \$1.5 billion and which would be consistent with the opportunities the Firm has pursued for its recent private equity funds. Over the prior two Apollo funds, they have deployed an average of \$517.3 million transaction. Apollo is a control investor and in the prior three funds has owned an average of 52% of their portfolio companies.

Apollo anticipates that Fund VIII will consist of a portfolio of ~25 companies across the Firm's core sectors. The core sectors are: chemicals, consumer & retail, distribution & transportation, financial & business services, manufacturing & industrial, media, cable & leisure, natural resources, packaging & materials, and satellite & wireless. Apollo's core industries have remained broadly consistent over the Firm's investment history although the opportunity set within each industry will vary depending on market conditions. Fund VIII will focus primarily on investments in North America but will have the ability to invest up to 35% outside of North America, primarily in Western Europe where the Firm has invested ~20% of the recent prior funds. Apollo focuses on international jurisdictions where creditor rights and restructuring processes are well defined and tested. Similarly, in emerging markets, Apollo tends to avoid those countries that are deemed to be politically less stable and where it is not confident that the Firm's rights as an investor will be adequately protected. Due to the nature of Apollo's value-oriented strategy, the Firm has historically found limited opportunities to invest in Asia. However, as



Apollo now has a dedicated team in the region, they expect the Asian exposure to increase in Fund VIII to ~5-10%.

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 Apollo Investment Fund VIII, L.P. are:

Donna Smolens - Managing Director, Connecticut Office  
Jeff Gruccio – Vice President , Connecticut Office  
Elizabeth Campbell – Senior Associate, Connecticut Office

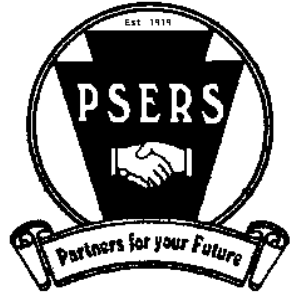
Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$200 million of limited partnership interests in Apollo Investment Fund VIII, L.P. Portfolio Advisors makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

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

# Private Debt Fund Commitment



## Apollo Investment Fund VIII, L.P.

October 3, 2013

Charles J. Spiller, Managing Director,  
Private Markets & Real Estate

# Apollo Investment Fund VIII, L.P. – Private Debt Fund

## Overview

- Targeted fund size is \$12 billion and the hard cap is \$15 billion
- The individual investment range is \$300 million to \$1.5 billion of equity
- Strategy is a contrarian, value oriented approach
- Apollo expects the fund to have approximately 20 to 25 investments

## Investment Approach

- Apollo has a flexible investment approach in that they can invest in the equity or debt of a company
- Invest in high quality companies at multiples which are at a discount to market comparables
- Fund VIII will focus primarily on investments in North America and Western Europe, and will have the ability to invest up to 35% outside of the United States and Canada
- Apollo's core industries are: chemicals; consumer & retail; distribution & transportation; financial & business services; manufacturing & industrial; media, cable & leisure; natural resources; packaging & materials; and satellite & wireless

## Investment Team

- Apollo has a staff of approximately 644 persons, including 93 private equity investment professionals and 20 operating executives
- The senior partners in private equity have worked together an average of 13 years
- Apollo has 9 offices across the U.S., Europe and Asia

# Apollo Investment Fund VIII, L.P. – Private Debt Fund

## **GP “Value Add”**

- Following an investment, the team focuses its role on functioning as a catalyst for business transforming events and normally participates in all significant decisions with board members to develop and support management in the execution of each portfolio company’s business strategy. Apollo has relationships with operating executives that assist in the diligence of new opportunities, develop operating plans, and provide strategic and operational oversight for the portfolio investments post-acquisition. Following an acquisition, Apollo often seeks to have the same operating executive take a position within the company’s management team to further work on implementing the operating plan

## **Market Opportunity**

- In expansionary markets, Apollo has been able to achieve success by relying on its sector expertise, adhering to value discipline with optimal capital structures, and taking an active approach to serve as a catalyst to drive operational improvements post-acquisition. During recessionary markets, when typical PE firms pull back on investing, Apollo remains active as the firm seeks to capitalize on market dislocation. Such opportunities include distressed debt and other credit instruments

# Apollo Investment Fund VIII, L.P. – Private Debt Fund

## Performance As Of 3/31/2013

<b>Fund Name</b>	<b>Vintage Year</b>	<b>Net Multiple</b>	<b>Net IRR</b>
Fund VII	2008	1.6x	28%
Fund VI	2006	1.5x	10%
Fund V	2001	2.2x	44%
Fund IV	1998	1.8x	9%
Fund III	1995	1.7x	11%

## History with PSERS

- This will be PSERS second commitment with Apollo, PSERS committed \$200 million to Apollo European Principal Fund II in (Vintage 2012)

# Apollo Investment Fund VIII, L.P. – Private Debt Fund

## Board Issues

**Pennsylvania Presence** – The following are Apollo portfolio companies and their amount of employees based in Pennsylvania:

1. Berry Plastics Group Inc. – 296
2. Caesars Entertainment Corporation – 1,761
3. Claire's Stores Inc. – 408
4. Great Wolf Resorts, Inc. – 588
5. Lyondell Basel Industries N.V. – 15
6. McGraw-Hill Education – 37
7. Norwegian Cruise Line Holdings Ltd. – 37
8. Rexnord Corporation – 386
9. Taminco Corporation (headquartered in PA) – 59

## Placement agents

- Apollo will use Mirae Asset Securities for Korean based investors; Picton S A for Chilean based investors; and UBS is for European high net worth investors through their private bank
- All placement agent fees paid will offset the management fee

# Apollo Investment Fund VIII, L.P. – Private Debt Fund

## Board Issues

### PA political contributions

<u>As of August 20th 2013</u>					
<u>Last Name</u>	<u>First Name</u>	<u>Recipient</u>	<u>Political Level</u>	<u>Value</u>	<u>Date</u>
Rowan	Marc	Robert Casey	US Senate	\$ 2,500	4/23/2012
Harris	Joshua	Robert Casey	US Senate	\$ 2,500	6/14/2012
Ruthen	Seth	Robert Casey	US Senate	\$ 1,500	2/1/2012
Hannan	John	Robert Casey	US Senate	\$ 1,500	6/6/2012
Kleinman	Scott	Robert Casey	US Senate	\$ 1,500	6/6/2012
Stevens	Justin	Robert Casey	US Senate	\$ 500	3/28/2012

### Relationship with Consultant

- Portfolio Advisors has invested in five Apollo Funds through their fund of funds vehicle:
  1. PAPEF VII committed \$15 million to Apollo VIII
  2. PAPEF V committed \$10 million to Apollo VII
  3. PAPEF III committed \$15 million to Apollo VI
  4. PAPEF IV and VII committed a total of \$28 million to Apollo EPF II
  5. PAPEF III, V and VI committed a total of \$63 million to Apollo EPF I

### Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$200 million plus reasonable normal investment expenses

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.