

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

DATE: April 17, 2014

SUBJECT: LBC Credit Partners III, L.P.

TO: Members of the Finance Committee

FROM: James H. Grossman, Jr., CPA, CFA
Chief Investment Officer



Staff is recommending that PSERS increase its commitment to LBC Credit Partners III, L.P. from \$200 million to \$240 million. Details regarding our recommendation are spelled out below.

At the September 28, 2012 Finance Committee meeting, the Committee approved a \$200 million commitment to LBC Credit Partners III, L.P. (LBC III), our second fund investment with LBC Credit Partners. LBC III was established to originate and manage a diversified portfolio of privately negotiated, secured, high-yielding loans to middle-market corporate borrowers.

Recently, LBC Credit Partners completed its fund raising activities with a final investor committing \$240 million. As part of our relationship with LBC Credit Partners, they have offered PSERS the best fee terms available to fund investors if we increase our commitment from \$200 million to \$240 million.

As of April 17, 2014, LBC III has drawn \$80 million of our \$200 million commitment (40%) and distributed back to PSERS approximately \$8.0 million (about 10.0% of drawn capital). The net internal rate of return (IRR) since inception of the fund as of March 31, 2014 is 14.40%. We anticipate that LBC III will generate low- to mid-teens type net IRR returns similar to LBC Credit Partners II which has a net IRR since inception of the fund of 14.64% as of March 31, 2014.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4703.